MINNESOTA HOUSING

2014 Affordable Housing Plan

Minnesota Housing
Finance Agency

Photo: Renaissance Box, Saint Paul

2014 Affordable Housing Plan

Executive Summary

The 2014 Affordable Housing Plan (AHP) is Minnesota Housing's annual business plan for carrying out the Agency's core work for the upcoming year and implementing the 2013-15 Strategic Plan. The AHP outlines key programmatic and policy initiatives for the year, specifies program-by-program funding, and establishes production targets. In total, the plan allocates about $795 million of federal, state, and agency housing resources, which will assist approximately 65,000 households or housing units.

As Minnesota and the country come out of the economic and housing crisis, we are in a period of transition with uncertainties and adjustments. The economy and housing market are recovering, but many low- and moderate-income Minnesotans and communities are at risk of being left behind as the state and country adjust to new realities. Households with lower quality credit, people experiencing homelessness, and extremely-low income households are among the most vulnerable. Under the 2014 AHP, Minnesota Housing will focus its efforts on providing affordable housing options and choices to help low- and moderate-income Minnesotans and communities succeed in this environment. These efforts can best be summarized in the context of the Agency's five strategic priorities.

<u>Promote and Support Successful Homeownership</u>

- **Continue to provide low-interest mortgages with enhancements (such as down-payment assistance).** Low- and moderate-income households are having a difficult time qualifying for mortgages and taking advantage of what have been low home prices and interest rates. Lenders and servicers are extremely cautious about extending credit in a time of rapid regulatory change and uncertainty. In this environment, the Agency's core mortgage work is critical.

- **Develop strategies to effectively deliver Agency products and services in a rapidly changing housing market, real estate finance system, and regulatory environment.** Minnesota Housing relies on private sector lenders and servicers as delivery partners for its single-family products. The Agency must work closely with these partners to assure that its products and services are effectively delivered and continue to support successful homeownership in this environment.

- **Strive for 22 percent of Minnesota Housing's first-time borrowers being households of color or Hispanic ethnicity to reduce homeownership disparities.** The current credit environment coupled with the foreclosure crisis has hit households of color or Hispanic ethnicity particularly hard. The homeownership disparity in Minnesota (the percentage of white households that own their homes compared with the percentage of households of color or Hispanic ethnicity that own their homes) increased by 7.3 percentage points between 2008 and 2011. Minnesota now has the largest disparity in the country. To address this, the Agency will:
    - Implement a new Targeted Mortgage Opportunity Program ($10 million) to provide sustainable first-mortgage (or equivalent) financing opportunities for households facing barriers to credit, particularly emerging market households (households of color or Hispanic ethnicity); and
    - Implement a new Enhanced Financial Capacity Initiative ($500,000) for intensive homeowner and financial literacy training to increase the financial capacity of potential homeowners, particularly emerging market households.

- **Implement a targeted home improvement initiative to provide reduced interest rates on home improvement loans to help households with incomes in the middle of the low-to-moderate income spectrum.** The Agency's regular Home Improvement Loan Program typically serves homeowners in the $61,000 income range, while its Rehabilitation Loan Program serves households in the $14,000 range. This initiative will serve about 200 households with incomes in between.

<u>Prevent Foreclosures and Support Community Recovery</u>

- **Continue making foreclosure mitigation a priority in selecting developments for funding.** The foreclosure crisis has had a severe economic impact on some communities across the state. Under the Agency's multifamily and single-family process for selecting developments for funding, the Agency prioritizes projects involving foreclosed properties and/or any housing investments in communities heavily impacted by the crisis.

- **Implement the newly refined community-recovery selection criteria under the Single Family Division's Community Homeownership Impact Fund to direct resources to communities with a combination of lower-income residents, older housing stock, and/or large price declines.** Communities with a combination of those three conditions have been the hardest hit by the economic and housing crises and often lack private investment for recovery.

<u>Preserve Federally-Subsidized Rental Housing</u>

- **Implement a revamped preservation criterion in selecting rental developments for funding, which will make it more objective, transparent, systematic, and data driven.** A threat to providing extremely-low-income households with affordable housing is the potential loss of project-based rent assistance due to conversion to market-rate or physical deterioration. Under these programs, tenants pay no more than 30 percent of their income on rent and utilities, which is critical when their median income is just $11,000.

<u>Address Specific and Critical Needs in Rental Housing Markets</u>

- **Conduct ongoing conversations with individual communities about their housing and development needs**. The types of affordable housing opportunities needed in each community across the state are different, and Minnesota Housing needs flexible responses. Areas of discussion could include: (1) workforce housing, (2) housing for seniors, (3) rental properties with large units for large families, (4) homelessness, (5) housing for people with disabilities, (6) community recovery, and (7) rental shortages, as reflected by low vacancy rates.

- **Implement Governor Dayton's Housing-Jobs initiative to promote economic development in communities needing workforce housing.** During the 2013 Legislative Session, Minnesota Housing received $10 million for the Governor's Housing-Jobs Initiative, which will help finance affordable housing (rental and homeownership) in the parts of the state where employers are poised to expand but there is not enough housing to meet the needs of the local workforce.

- **Continue to assist seniors so that they can to age in place and remain in their community.** The Agency will pursue opportunities to better coordinate housing programs with human services programs that serve the elderly. Programs and policies will be refined to best support community-based housing for seniors and address housing gaps for renters and homeowners.

<u>Prevent and End Homelessness</u>

- **Carry out ongoing core work to address homelessness, which includes financing supportive housing for people experiencing long-term homelessness, homelessness prevention assistance, rent assistance, and operating subsidies.** With respect to housing options, homelessness is a worst-case scenario. People experiencing homelessness find themselves in a situation where they have no housing options at all.

- **Reinvigorate the Minnesota Interagency Council on Homelessness (MICH), which will develop a state plan to prevent and end homelessness.** Homelessness is not just a housing issue. It affects the work of many state agencies. For the upcoming year, the center piece of MICH's work will be the creation of Minnesota's Plan to Prevent and End Homelessness (a strategic document) and accompanying two-year Interagency Action Plans to implement the strategic plan.

- **Implement new rent assistance for ex-offenders transitioning out of correctional facilities and highly-mobile families with school-age children.** Recognizing the cross-agency linkages between housing and corrections and education programs, Governor Dayton created these across-agency initiatives, which received $3 million in funding during the 2013 Legislative session.

<u>Multiple Priority Efforts</u>

In providing housing options and choices to households and communities, Minnesota Housing balances multiple policy objectives, including: (1) providing access to opportunities (jobs, transit, amenities, services, good schools, etc.), (2) investing in community recovery, (3) serving special populations (homeless individuals, extremely-low income households, and others), and (4) selecting high-quality and cost effective developments. The Agency is also reaching across bureaucratic "silos" and coordinating its work with other agencies to address cross-cutting issues. Housing stability affects program success in many other agencies, including human services, education, employment, corrections.

In summary, Minnesota Housing's key activities for 2014 will include:

- Addressing credit and regulatory pressures that are limiting access to homeownership for lower-income households, especially households of color or Hispanic ethnicity;
- Championing the development of the State Plan to Prevent and End Homelessness;
- Engaging communities in planning for their diverse housing needs; and
- Continuing to preserve federally-subsidized housing, which primarily serves extremely-low income households.

The 2014 AHP contains the following sections:

- Program Budget Overview
- Key Initiatives
- Funding by Strategic Priority
- Household and Unit Projections
- Funding by Source
- Appendix A: Program Funding by Source
- Appendix B: Program Narratives

Program Budget Overview for 2014

As shown in Table 1, the Agency's 2014 program budget is about $795 million, which is a 5 percent decrease from the previous year. As will be discussed in the last section of the Plan, the $42 million reduction in the 2014 budget is explained largely by the lack of $35.5 million of state capital investments that were appropriated for 2013. In a period of a challenging bond market and limited resources, the Agency is able to maintain a similar level of funding as 2013 (the Agency's largest budget ever) by identifying funding options and pursuing those that will further the Agency's mission of financing affordable housing for low- and moderate-income Minnesotans.

Table 1: Funding by Program Category

Program Category	Original 2013 AHP	Proposed 2014 AHP
Homebuyer and Home Refinance*	$381,806,959	$431,338,750
Home Improvement	$26,215,000	$20,930,000
Rental Production - New Construction and Rehabilitation	$146,947,057	$86,000,963
Rental Assistance Contract Administration	$179,840,000	$183,890,970
Resources to Prevent and End Homelessness (Non-Capital)	$25,074,443	$29,020,389
Rental Portfolio Management	$6,460,090	$6,500,000
Multiple Use Resources	$55,005,198	$33,568,827
Other	$15,592,951	$3,591,115
Total	$836,941,698	$794,841,013

* This includes funds for Mortgage Credit Certificates (MCCs). Previously, the AHP reported the bonding authority that was allocated for MCC use. The AHP now reports the MCC authority being used, which 25 percent less than the bonding authority (reflecting a 25 percent conversion rate). The MCC funding that was adopted in the 2013 AHP has been revised to reflect the lower converted amount.

The primary changes in funding are:

- The Agency will increase its Homebuyer and Home Refinance funding by $50 million, which includes the following estimates: (1) a $26 million increase in regular Home Mortgage Loan production, (2) $10 million for a new Targeted Mortgage Opportunity Program (an initiative to provide mortgage financing to households having trouble accessing credit in the current market, particularly households of color or Hispanic ethnicity), and (3) a $13 million increase in Mortgage Credit Certificate financing (a tax credit for first-time homebuyers on their mortgage interest).

- Home Improvement funding will drop by $5 million. The reduction recognizes current market realities. In the current year (2013), the Agency is not going to commit all the home improvement funds budgeted. With the slow recovery from the Great Recession, large home value declines since 2006, and many homeowners owing more on their existing mortgages than their homes are worth, the home improvement market has been very slow. Funding for 2014 will match 2013's actual production (rather than budgeted) with a small increase.

- Funding for Rental Production will drop by $60 million. This includes a $40 million reduction in amortizing mortgages from the Agency. Given the challenges in the current bond market for accessing low-cost capital and the relatively low interest rates for multifamily mortgages from other lenders, demand for amortizing mortgages financed by the Agency has been limited. In

2013, the Agency budgeted $90 million for amortizing mortgages (permanent and bridge loans) under the Low and Moderate Income Rental LMIR) program but only expects to commit $30 million of that amount. For 2014, the Agency is budgeting $40 million under LMIR to finance amortizing mortgages. To partially offset this $50 million reduction and help the rental properties obtain mortgages on the most favorable terms possible, Minnesota Housing recently became a MAP (Multifamily Accelerated Processing) lender, which is a fast-track processing system for FHA's multifamily insurance programs. In 2014, the Agency expects this effort to support another $10 million of amortizing mortgages originated by Minnesota Housing.

The rest of the difference in funding for Rental Production occurred because Minnesota Housing received $5.5 million of general obligation bond proceeds and $30 million of housing infrastructure bond proceeds in 2013. The Legislature did not make these funds available for 2014. For 2013, the Agency budgeted all $5.5 million of the general obligation bonds and $12 million of the housing infrastructure bonds to Rental Production. The remaining $18 million of housing infrastructure bonds went to Multiple Use Resources. Thus funding for Multiple Use Resources will also decline in 2014.

- The Other program category declined by $12 million because the 2013 AHP included flood relief funds for Northeast Minnesota that are not needed in 2014.
- Funding levels for Rent Assistance Contract Administration, Resources to Prevent and End Homelessness, and Rental Portfolio Management are very similar for 2013 and 2014.

Overall, the Agency developed the funding decisions in the 2014 AHP based on several factors, which include:

- Fulfilling the Agency's mission,
- Following the strategic priorities outlined in the 2013-15 Strategic Plan,
- Accessing all funding sources that the Agency can effectively use to further its mission,
- Matching funding sources with the activities that they can legally and effectively support (state and federal appropriations and federal tax law restrict how funds can be used),
- Serving the full spectrum of low- and moderate-income Minnesota households, which range from extremely-low to moderate income, homeowners to renters, urban to rural, etc.,
- Meeting the varying needs of these Minnesota households,
- Funding a full spectrum of affordable housing activities, which include homeownership, home improvement, new rental construction, rental preservation, rental assistance, supportive housing, homelessness prevention, foreclosure prevention, community recovery, etc.,
- Placing a special emphasis on populations facing barriers to affordable and stable housing
- Directing "gap/affordability" funds (grants and deferred loans) to the Minnesota households needing the most help to obtain stable housing,
- Supporting economic and community development,
- Examining the long-term sustainability of the funding, and
- Maintaining the Agency's long-term financial strength.

The program categories in Table 1 summarize the 38 programs carried out by the Agency. Table 2 lists each of the programs and their 2013 and 2014 funding, along with basic program information. For more detailed information about each program, see Appendix B.

Table 2: 2013 and 2014 Budget and Program Summary

		Original 2013 Funding Level	2014 Funding Level	Activity	Median Income Served	Percentage Served from Communities of Color
	Homebuyer and Home Refinance	**$381,806,959**	**$431,338,750**			
1	Home Mortgage Loans (Net Commitments)*	$350,000,000	$376,000,000	First Mortgage	$44,000	23%
2	Targeted Mortgage Opportunity Program	$0	$10,000,000	First Mortgage	N/A	N/A
3	Mortgage Credit Certificates (MCC)**	$12,500,000	$25,600,000	Tax Credit on Interest	N/A	N/A
4	Deferred Payment Loan Program	$5,841,209	$4,000,000	DP and CC Assistance***	$44,000	25%
5	HOME HELP	$4,000,000	$3,400,000	DP and CC Assistance***	$39,000	40%
6	Monthly Payment Loan Program	$5,000,000	$7,000,000	DP and CC Assistance***	N/A	N/A
7	Single Family Interim Lending	$910,000	$1,522,750	Deferred Loan	N/A	N/A
8	Habitat for Humanity Initiative	$2,000,000	$2,000,000	Homebuyer Financing	$33,000	77%
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,555,750	$1,316,000	Education & Counseling	$34,000	29%
9a	HECAT - Enhanced Financial Capacity Initiative	$0	$500,000	Education & Counseling	N/A	N/A
	Home Improvement	**$26,215,000**	**$20,930,000**			
10	Home Improvement Loan Program	$20,465,000	$13,830,000	Home Improvement Loan	$61,000	8%
10a	Targeted Home Improvement Interest Write-Down	$0	$500,000	Home Improvement Loan	N/A	N/A
11	Rehabilitation Loan Program (RLP)	$5,750,000	$6,600,000	Home Improvement Loan	$14,000	11%
	Rental Production - New Construction and Rehabilitation	**$146,947,057**	**$86,000,963**			
12	Multifamily Amortizing First Mortgages	$90,000,000	$50,000,000	Amortizing Loan	N/A	N/A
12a	Low and Moderate Income Rental (LMIR)	$90,000,000	$40,000,000	Amortizing Loan	$18,000	42%
12b	MAP Lending (Multifamily Accelerated Processing)	$0	$10,000,000	Accelerated Processing	N/A	N/A
13	Flexible Financing for Capital Costs (FFCC)	$4,000,000	$4,500,000	Deferred Loan	N/A	N/A
14	Low-Income Housing Tax Credits (LIHTC)	$8,043,053	$8,201,743	Investment Tax Credit	$18,000	44%
15	Affordable Rental Preservation (PARIF and HOME HARP)	$25,315,849	$20,102,939	Deferred Loan	$12,000	57%
16	Housing Trust Fund (Capital)	$12,000,000	$0	Deferred Loan	$8,000	42%
17	Publicly Owned Housing Program (POHP)	$5,567,979	$58,281	Deferred Loan	$7,000	21%
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$1,520,176	$3,138,000	Deferred Loan	N/A	N/A
19	Rental Rehabilitation Loan Program	$500,000	$0	Amortizing Loan	$8,000	N/A
	Rental Assistance Contract Administration	**$179,840,000**	**$183,890,970**			
20	Section 8 - Performance Based Contract Administration (PBCA)	$107,100,000	$113,000,000	Rent Assistance	$11,000	37%
21	Section 8 - Traditional Contract Administration (TCA)	$71,115,000	$70,000,000	Rent Assistance	$12,000	25%
22	Section 236	$1,625,000	$890,970	Interest Rate Reduction	N/A	N/A
	Resources to Prevent and End Homelessness (Non-Capital)	**$25,074,443**	**$29,020,389**			
23	Housing Trust Fund (HTF) - **Net Activity**	$10,588,219	$14,407,373	RA and OS****	$8,000	64%
23a	Funding for new contracts	N/A	$3,935,134			
23b	Adj. to spread two-year contracts over two years	N/A	$10,472,239			
24	Ending Long-Term Homelessness Initiative Fund (ELHIF) - **Net Activity**	$3,364,781	$3,420,271	RA and OS****	N/A	N/A
24a	Funding for new contracts	N/A	$1,719,000			
24b	Adj. to spread two-year contracts over two years	N/A	$1,701,271			
25	Bridges - **Net Activity**	$3,513,771	$3,111,500	Rent Assistance	$9,000	31%
25a	Funding for new contracts	N/A	$400,000			
25b	Adj. to spread two-year contracts over two years	N/A	$2,711,500			
26	Section 811 Demonstration	$0	$80,000	Rent Assistance	N/A	N/A
27	Family Homeless Prevention and Assistance Program (FHPAP) - **Net Activity**	$7,465,000	$7,862,000	Grants	$9,000	57%
27a	Funding for new contracts	N/A	$0			
27b	Adj. to spread two-year contracts over two years	N/A	$7,862,000			
28	Housing Opportunities for Persons with AIDS (HOPWA)	$142,672	$139,245	Grants	$16,000	44%
	Rental Portfolio Management	**$6,460,090**	**$6,500,000**			
29	Asset Management	$3,100,000	$3,000,000	Loans	N/A	N/A
30	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,360,090	$3,500,000	Loans & Grants	N/A	N/A
	Multiple Use Resources	**$55,005,198**	**$33,568,827**			
31	Economic Development and Housing/ Challenge (EDHC)	$49,489,227	$27,827,907	Loans & Grants	MF $20K SF $35K	MF 60% SF 40%

		Original 2013 Funding Level	2014 Funding Level	Activity	Median Income Served	Percentage Served from Communities of Color
32	Technical Assistance and Operating Support	$2,515,971	$2,740,920	Grants	N/A	N/A
33	Non-Profit Capacity Building Loan Program	$1,000,000	$1,000,000	Revolving Deferred Loan	N/A	N/A
34	Strategic Priority Contingency Fund	$2,000,000	$2,000,000	Loans & Grants	N/A	N/A
	Other	**$15,592,951**	**$3,591,115**			
35	Administrative Expenses HOME	$615,415	$592,222	Admin.	N/A	N/A
36	Manufactured Home Relocation Trust Fund	$1,279,536	$1,279,536	Grants	N/A	N/A
37	Flood Disaster	$12,720,000	$0	Loans & Grants	N/A	N/A
38	Disaster Relief Contingency Fund	$978,000	$1,719,357	Loans & Grants	$31,000	59%
	Total	**$836,941,698**	**$794,841,013**			

* Home Mortgage Loans will be funded for estimated gross commitments of $470,000,000 in 2014. Historically, about 20% of loan commitments cancel, which will result in net commitments of approximately $376,000,000.
** Previously, the AHP reported the bonding authority that was allocated for MCC use. The AHP now reports the MCC authority being used, which 25 percent less than the bonding authority (reflecting a 25 percent conversion rate). The MCC funding that was adopted in the 2013 AHP has been revised to reflect the lower converted amount.
*** "DP and CC Assistance" is Down-payment and Closing Cost Assistance
**** "RA and OS" is Rental Assistance and Operating Support

As shown in Table 2, the two biggest program areas for the Agency are mortgages for homebuyers and home refinancing (lines 1 and 2) and the administration of Section 8 contracts for project-based rent assistance (lines 20 and 21). Both of these areas are critical for the Agency to fulfill its mission. The mortgage activity allows low- and moderate-income households to pursue the dream of homeownership, which they would have otherwise struggled to achieve. In light of the foreclosure crisis, Minnesota Housing has expanded its commitment to promote and support successful homeownership. The mortgage program is also the Agency's primary business engine that generates revenues to fund the Agency's Pool 3/Foundation (which finances grant and deferred-loan activity throughout the Agency) and cover agency-wide operating expenses. To complement the single family mortgage activity, the Section 8 program (project-based) makes it possible for about 30,000 of the state's lowest-income households to spend only 30 percent of their income on rent and utilities. Another large program is the Low Income Housing Tax Credit (LIHTC) program (line 14). While the agency will allocate $8.2 million of tax credits in 2014 to developments for lower income renters, these credits will likely generate between $65 million and $75 million in private capital to finance the developments, depending on the pricing of the tax credits.[1]

Table 2 also shows the full spectrum of low- and moderate-income households that the Agency serves, based on historical data. Rent assistance programs (lines 20-26) typically serve households with incomes around $10,000, while the Home Improvement Loan Program (line 10) serves households in the $60,000 range. The rental property development programs and the homebuyer programs serve households with incomes in between. For comparison, the HUD-defined statewide median family income is $74,000 for Minnesota in 2013.[2]

Table 2 also shows the percentage of households served that are from communities of color or Hispanic ethnicity, based on historical data. Minnesota Housing wants to make sure that households that have traditionally faced barriers to affordable housing have access to its programs and affordable housing. As shown in Table 2, households of color or Hispanic ethnicity represent a relatively large share of the households served by the Agency. Households of color or Hispanic ethnicity generally represent from 22 percent of the Agency's homebuyers to 44 percent of tenants in tax credit development to 57 percent of households participating in the Family Homeless Prevention and Assistance Program. In comparison, households of color or Hispanic ethnicity account for 12 percent of all households in Minnesota; and lower-income households of color or Hispanic ethnicity account for 17 percent of all lower-income households in Minnesota.[3] (Lower-income is defined here as annual household incomes less than $50,000.)

Finally, the section of Table 2 addressing "Resources to Prevent and End Homelessness" has adjustments to reflect two-year contracts into which Minnesota Housing recently entered. (See lines 23-25 and 27.) In 2013, the Agency originally budgeted these programs for one-year contracts (as show in Table 2). However, in June of 2013, the Agency's Board approved an AHP amendment allowing the Agency to enter into two-year contracts in 2013. Thus, Table 2 shows three components for these programs in 2014. Sub-line "a" shows the funds needed to enter into new contracts in 2014, sub-line "b" shows the adjustment to spread the two-year contracts over two-years, and the main-line "Net Activity" combines the two to show the overall activity. For example, the Bridges program will have $400,000 of new contracts in 2014 (line 25a), but $2.7 million of the 2013 Bridges two-year contract is allocated to 2014. The break out is needed for budgeting and accurately reflecting Agency operations. From a budgeting perspective, sub-line "a" shows the funds that are needed to sign new contracts, while the main-line (Net Activity) reflects overall program activity after the contracts are spread over two years, which is a better reflection of the Agency's operations.

Minnesota Housing also serves each region of the state in relative proportion to each region's share of households and jobs. This includes the Twin Cities metropolitan area, Greater Minnesota job centers, and rural areas. While the Agency does not use a rigid regional allocation formula, the Agency is committed to monitoring the distribution to determine if it is distributing resources in a manner that is reasonably proportional. This Agency's recent history of regional allocations can be found in the Agency's report *Regional Distribution of Minnesota Housing Assistance*.[4]

Key Initiatives for 2014

The economy, housing market, and financial markets fundamentally changed after their collapse in 2008 and 2009. With these changes, the nation and Minnesota have confronted a "new normal" that has required Minnesota Housing to adapt and evolve to remain effective. In 2013, the Agency implemented some larger-scale changes to its financing mechanisms and programs. As outlined in last year's AHP, the Agency: (1) added financing tools to overcome challenges presented by the bond market, (2) implemented a revised and enhanced set of homeownership and home improvement loan products, (3) started enhancing and refining its strategies and tools for preserving and stabilizing affordable rental housing, and (4) carried out a range of other critical activities. With these changes, the Agency has positioned it overall financing and program structures to effectively serve Minnesota going into the future.

While these program changes were being implemented, Minnesota's economy and housing market were also recovering, however slowly.

- The statewide unemployment rate has dropped from a peak of 8.3 percent in June of 2009 to 5.2 percent in July of 2013.[5]
- The number of foreclosures in Minnesota has dropped from a peak of over 26,000 in 2008 to a little less than 18,000 in 2012.[6]
- The median home sales price in the Twin Cities metro area has increased from $165,000 in June of 2011 to $210,000 this June.[7]
- The apartment vacancy rate in the Twin Cities has dropped from a peak of 7.3 percent in December of 2009 to 2.3 percent in June of 2013.[8]

However, even with redesigned programs and an improving environment, many low- and moderate-income Minnesotans and communities are at risk of being left behind as the state and country continue to confront ongoing financial uncertainties and as everyone adjusts to new realities. While Minnesota Housing made larger-scale financing and program changes in 2013, the Agency will fine tune this work in 2014 by focusing on households and communities facing the biggest barriers to safe, stable, and affordable housing. Specifically, the Agency will strategically enhance the housing options and choices provided to these households and communities so that they have increased opportunities for success.

The Current Environment

The need for more affordable housing is increasing. Between 2000 and 2011, the percentage of Minnesotans who were cost burdened by their housing payments (spending more than 30% of their income for housing) increased from 22 percent to 33 percent. The trend occurred because median incomes declined by 10 percent (after adjusting for inflation) and median monthly housing costs increased 3 percent for renters and 5 percent for homeowners.[9] This overall increase in housing costs masks fluctuations that occurred during the decade – they increased in the early- and mid-2000s, fell in the late-2000s, and have started to increase again over the last couple of years.

The increase in cost-burdened households will likely continue. While Minnesota is recovering many of the jobs lost during the Great Recession, they are typically in lower wage industries.[10] Thus, the state will likely see continued reductions in median wages (assuming current employment trends continue), and housing costs are rising. As discussed earlier, the median price of a home sold in the Twin Cities increased by $45,000 in the last two years.[11] In addition, interest rates for standard fixed-rate mortgages have increased significantly over the last few months, rising from 3.35 percent on May 2 to 4.57 percent on September 5.[12] On the rental side, rents are on the rise with vacancy rates below 5 percent. In the last two years, average rents in the Twin Cities region increased from $916 to $979.[13]

The prospect of more cost-burdened households is a particular concern for the lowest-income households. They are already far more likely to be cost burdened. While 33 percent of all Minnesota households are cost burdened, 59 percent of households earning less than $50,000 are cost burdened.[14] In addition, with their limited resources, they are more likely to lack options for safe, stable, and affordable housing with access to opportunities.

For example, many low- and moderate-income households currently have a difficult time qualifying for mortgages and taking advantage of low prices and interest rates. Lenders and servicers are extremely cautious about extending credit in a time of significant regulatory change and uncertainty. For example, homebuyers without high credit scores have struggled to obtain mortgages. Analysts with the Federal Reserve Bank found that in a recent 18-month period, mortgage originations for home purchases declined by 50 percent for borrowers with credit scores between 620 and 680 and by 15 percent for borrowers between 680 and 720. The change for borrowers with higher scores was minimal.[15]

The current credit environment coupled with the foreclosure crisis has hit households of color or Hispanic ethnicity particularly hard. The homeownership disparity in Minnesota (the percentage of white households that own their homes compared with the percentage of households of color or Hispanic ethnicity that own their homes) increased 7.3 percentage points between 2008 and 2011. As a result, Minnesota now has the largest disparity in the country, with 77.5% of white households owning their home and only 38.8% of other households owning their own home. This disparity is particularly large for African-American/black households, with a homeownership rate of just 24.0%.[16]

Developing effective ways of serving people of color or Hispanic ethnicity is critically important. They often face barriers and impediments to housing options and choices, and Minnesota Housing needs to work to remove such barriers and provide equitable opportunities. In addition, Minnesota is becoming more diverse. The share of the state's population that is of color or Hispanic ethnicity is expected to rise from 17 percent today to 25 percent in 2035.[17]

With respect to housing choices and options, homelessness is a worst-case scenario. People experiencing homelessness find themselves in a situation where they have no housing options at all. Unfortunately, the situation has been getting worse in Minnesota with the slow recovery from the Great Recession. The number of people experiencing homelessness in Minnesota has been increasing.

- 7,751 in 2006,
- 9,664 in 2009, and
- 10,214 in 2012.[18]

On the positive side, where Minnesota has focused its attention (chronic homelessness and homeless veterans) the number has declined. Nevertheless, the number of people experiencing homelessness has increased for other segments of the homeless population, such as children.

Providing affordable housing options for seniors will also be a growing challenge. Between 2010 and 2020, the State Demographer's Office expects the senior population in Minnesota to grow by 42 percent. As the population ages, providing affordable housing options that can be combined with various levels and types of health and support services in various settings will be critical.

Responding to Current Challenges

Minnesota Housing's 2013-15 Strategic Plan is well designed to guide the Agency's 2014 work to finance affordable housing options in the current environment. The plan has five strategic priorities:

- Promote and support successful homeownership
- Prevent foreclosures and support community recovery
- Preserve federally-subsidized rental housing
- Address specific and critical needs in rental housing markets
- Prevent and end homelessness

These priorities cover each of the key challenges that the Agency faces in 2014.

Promote and Support Successful Homeownership

Given reduced access to mortgage products and increased homeownership disparities, the Agency's work is more important than ever to assist low- and moderate-income households to become successful homeowners, particularly those facing barriers and impediments in the current market. In 2014, Minnesota Housing will:

- *Continue to provide low-interest mortgages with enhancements (such as down-payment assistance.*

  To support successful homeownership for households not adequately served by the private market, the Agency needs to access capital at a low cost in the financial markets and provide mortgage products that meet their needs. The program and financing changes that Minnesota Housing has made in the last year, which includes expanded mortgage options for current homeowners to purchase their next home or refinance their current home and expanded availability of loans for down payment and closing costs, has placed the Agency in a strong position to carry out its work.

- *Develop strategies to effectively deliver its products and services in a rapidly changing housing market, real estate finance system, and regulatory environment.*

  Minnesota Housing does not directly originate or service its single-family mortgage loans. It relies on its private sector partners, who face a challenging regulatory environment. As a result of the housing and foreclosure crisis, the United States is implementing a wide range of lending regulations to prevent future crises. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act created the Consumer Financial Protection Bureau, which has the responsibility for preventing predatory lending, clarifying mortgage paperwork, and reducing incentives for mortgage brokers to push homebuyers into more expensive loans. As part of their responsibilities, they are issuing a range of rules and regulations, including the Ability-to-Repay and Qualified Mortgage Rule, the Loan Originator Compensation Rule, and others.

  These rules are creating new responsibilities, risks, and uncertainties for lenders. For example, the Ability-to-Pay and Qualified Mortgage Rule will help determine underwriting standards for mortgages, which will include a maximum debt-to-income ratio of 43 percent (a borrower's total debt payments cannot exceed 43 percent of his or her income). While loans originated under housing finance agency programs (including Minnesota Housing) are exempt from the rule, lenders are apprehensive about originating any loans not compliant with the rule. For example, a lender may originate a loan believing it will be purchased under Minnesota Housing's mortgage program only to find out that it does not meet program requirements and cannot be purchased. In this scenario, the lender is left holding a mortgage that is not compliant with the Qualified Mortgage Rule, opening the lender to undesirable risks and liabilities.

Minnesota Housing needs to better understand its lender partners' responsibilities and risks in the current regulatory environment and develop ways for the Agency to work with them to overcome their uncertainties and concerns when originating Minnesota Housing mortgages in this uncertain regulatory environment.

- *Maintain a 22 percent level of Minnesota Housing's first-time borrowers being households of color or Hispanic ethnicity to reduce homeownership disparities.*

  Estimates indicate that between 20 to 26 percent of renter households in Minnesota that are income eligible for Minnesota Housing mortgages are households of color or Hispanic ethnicity.[19] If Minnesota Housing lends to households of color or Hispanic ethnicity at this percentage, it will have no disparities in its lending. Between 2009 and 2012, the Agency's actual percentage has been between 22 percent (in times of higher lending volume) and 31 percent (in times of lower lending volume).

  In the current regulatory environment, it will be a challenge to maintain the 22 percent goal. For example, loan product and investor credit overlays and implementation of new regulations may impact the Agency's ability to serve low- to moderate-income borrowers. Households of color or Hispanic ethnicity will require special attention because larger proportions of these households have lower incomes. Minnesota Housing will need to develop implementation strategies that proactively overcome these regulatory barriers.

- *Continue to support the Minnesota Homeownership Center and its Emerging Market Homeownership Initiative (EMHI).*

  Starting in 2004, Minnesota Housing worked in partnership with Fannie Mae, the Federal Reserve Bank of Minneapolis, lenders, other government entities, real estate professionals, community groups, housing educators and counselors, non-profit housing providers, and housing advocates to create a collective business plan to increase homeownership opportunities in Minnesota's "emerging markets" (i.e. households of color or Hispanic ethnicity). The economic and housing crisis of the last six years and its fallout has created substantial hurdles for the initiative, but it has also made the work of the initiative more important than ever. The initiative now resides as a program of the Minnesota Homeownership Center.[20] Minnesota Housing strongly supports this work and will elevate its visibility and impact in the coming year.

- *Implement a new $10 million Targeted Mortgage Opportunity Program to provide sustainable first-mortgage (or equivalent) financing opportunities for households facing barriers to credit, particularly emerging market households (households of color or Hispanic ethnicity).*

  Minnesota Housing's Home Mortgage Loans are underwritten by the Agency's lender partners using mortgage-industry-accepted standards. As discussed above, these standards may be placing barriers in front of some potential borrowers that Minnesota Housing considers credit worthy. To address this, the Agency will allocate $8 million of Pool 2 funds for a first-mortgage loan pool. Any qualifying borrower can participate in the program, but there will be special marketing for emerging market homebuyers. The loan pool would be marketed through collaborative efforts with organizations that work closely with and/or provide outreach to emerging market populations. As part of this effort, the Agency will work with designated organizations to assure successful homeownership as well as household stability through intensive homeowner and financial literacy training. It is anticipated that loans originated under this pool will be underwritten pursuant to concessionary standards to be developed and, as a result, $2 million will be provided from the Agency's Pool 3/Foundation to serve as a risk pool to reimburse Pool 2 for any losses it may incur under this program. The Agency is still working on the details of the program and how it will operate in the current regulatory environment.

- *Implement a new $500,000 Enhanced Financial Capacity Initiative for intensive homeowners and financial literacy training to increase the financial capacity of potential homeowners, particularly emerging market households.*

  The Agency's strategy for increasing sustainable homeownership opportunities for low- and moderate-income Minnesotans has called for providing and, in some cases, mandating that certain homeowners receive comprehensive homeowner training. In fact, Minnesota has one of the best statewide homeowner training infrastructures in the country through the "homeownership advisors network" that has been developed by the Minnesota Homeownership Center.

  Recently, many community service providers have been developing approaches to reaching emerging market homeowners by supplementing traditional homeowner training with financial literacy and case management services to enhance the probability of both family stability and sustainable homeownership. Minnesota Housing will support these expanded efforts by working with existing organizations, the Minnesota Homeownership Center, and organizations with a high emerging market client-base that have an affinity for providing such services. This effort will be linked with the Targeted Mortgage Opportunity Program discussed previously.

- *Implement a targeted home improvement initiative to provide reduced interest rates on home improvement loans to help households with incomes in the middle of the low-to-moderate income spectrum.*

  Minnesota Housing currently has two single-family property rehabilitation programs. The Home Improvement Loan Program provides amortizing loans to households with incomes up to $96,500, which is 115% of area median income. In 2012, the median income of borrowers was $61,000. In contrast, the Rehabilitation Loan Program provides deferred (and potentially forgivable) loans to very-low-income homeowners needing to rehabilitate their homes to improve safety, livability, or energy efficiency. The income limit for this program varies by household size and is $22,250 for a three-person household. In 2012, the median income of borrowers was just $14,000.

  This initiative will target households with incomes between those served by the two existing programs. The income limit for the initiative will be 80 percent of area median income, and the program will focus on communities with lower-income residents and older housing stock. Under the initiative, the Agency will provide $500,000 of Pool 3/Foundation funds to write down the interest rates (from the rates charged by the regular Home Improvement Loan Program) for about 200 borrowers. The initiative will assist these households in maintaining their homes and succeeding as homeowners by providing more affordable loans for needed repairs.

Prevent Foreclosures and Support Community Recovery

As the foreclosure crisis continues, but with fewer new foreclosures, communities are starting to recover. To support the recovery process, Minnesota Housing is providing communities across the state with funds for housing investments. Many of the communities heavily hit by the housing and economic crises have a combination of low-income residents, older-housing stock, and/or large price declines. These are the communities most likely to lack the private investment needed for recovery. Thus, investments from Minnesota Housing are critical. In 2014, Minnesota Housing will:

- *Continue funding homebuyer and foreclosure counseling through the Homeownership Education, Counseling, and Training (HECAT) program to support successful homeownership and prevent foreclosures.*

  This is the core work of the Agency's prevention efforts. Minnesota's counseling network developed by the Minnesota Homeownership Center and financially supported by Minnesota Housing and other partners is considered one of the best in the country. Of the households seeking foreclosure counseling, 47 percent avoid foreclosure, with 90 percent of those households staying in their homes.[21]

- *Continue making foreclosure mitigation a priority in selecting developments for funding.*

  Under the Agency's process for selecting developments for funding under the multifamily RFP/tax-credit programs and the single-family Community Homeownership Impact Fund, the Agency prioritizes developments involving foreclosed properties and/or any housing investments in communities heavily impacted by the foreclosure crisis.

- *Implement the newly refined community-recovery selection criteria under the Single-Family Division's Community Homeownership Impact Fund to direct resources to communities with a combination of lower-income residents, older housing stock, and/or large home price declines.*

  This new criterion is intended to supplement and complement the foreclosure criterion discussed in the previous bullet. If a community has both (1) a significant number of foreclosures and (2) multiple community-need characteristics (lower-income residents, older-housing stock, and/or large price declines), it will get selection credit under both the foreclosure and community-recovery criteria.

  Minnesota Housing also recognizes that some communities need to recover from crises that pre-dated or happened outside the foreclosure crisis. Thus, regardless of foreclosures, communities with multiple community-need characteristics will also get selection credit under the community-recovery criterion.

Preserve Federally-Subsidized Rental Housing

Minnesota has more than 60,000 units of rental housing that have received or currently receive federal assistance to keep them affordable. These properties are located throughout the state, in large and small communities alike. The affordable housing stock is an essential part of communities' infrastructure, and its preservation is critical to communities' continued vitality. As these properties age, or as the subsidy contracts and regulatory agreements expire, there is a risk that these units may be lost due to physical deterioration or diminished capacity of the ownership entity. There is additional risk that some properties may convert to market rate housing and no longer be affordable for low income residents.

Thirty-one thousand (31,000) of these affordable housing units are federally subsidized through the Section 8 program. Section 8 housing is among the most affordable housing available because the tenant is required to pay only 30% of household income towards rent. The federal government makes up the difference between the tenant's contribution and an agreed upon contract rent. This is a critical benefit because the median income of Section 8 households is just $11,000. Another 7,000 privately-owned affordable housing units are federally subsidized through USDA Rural Development.

The Section 8 and USDA Rural Development portfolios were developed primarily from the 1960s to the 1980s. Due to the age of the housing stock, rents may not be able to keep up with the physical demands of the properties. Large injections of capital are needed to make physical improvements so that the properties can remain intact and affordable for decades into the future. Funding is used to ensure that the health, safety and quality of this critical affordable housing stock are maintained for its low income residents well into the future. There are currently over 9,200 units of privately-owned, federally-assisted housing that have not had significant capital improvements for at least the past 15 years. Based on current preservation resources and average funding levels we could meet the needs of 20 percent of these units over the next 5 years.

In 2014, Minnesota Housing will:

- *Implement a revamped preservation criterion for selecting rental projects for funding, which will make it more objective, transparent, systematic, and data driven.*

  Under the new criterion, projects will be evaluated at three levels of preservation need: (1) imminent risk, (2) high risk, (3) stabilization. The classification criteria are:

  1. Imminent risk:
     a. Ability to leave the program (prepayment/opt-out/mortgage-maturity) within three years;
     b. Located in either a job or household growth area;
     c. Documented evidence of market conversion potential:
        i. Significant rent differential between the property's current rents and market-rate rents, and
        ii. Low vacancy rate for comparable market-rate properties; AND
     d. Documented evidence that property could command market-rate rents.
  2. High risk:
     a. Ability to leave the program within six years;
     b. Located in a community with either:
        i. A rent burdened population, or
        ii. Job or household growth; AND
     c. Documented evidence of risk – either:
        i. Substantial physical needs identified by a third party, or
        ii. Ownership change needed due to deteriorating capacity.
  3. Stabilization:
     a. 15 or more years since most recent loan closing or tax credit,
     b. Operating feasibility shows duration of at least another 20 years, and
     c. Support of Interagency Stabilization Group.

To get funding, stabilization projects must also have funding commitments from federal, local, or philanthropic organizations; have affordable rents for the lowest income groups; and be cost effective.

- *Refocus Agency efforts to be more proactive in providing financial resources to preserve federally-subsidized rental housing.*

  The stabilization category discussed in the previous bullet is representative of this approach. The Agency will work proactively with property owners and managers before emerging needs become a crisis and the property falls into the high or imminent risk category.

The Agency will also monitor the loss of Section 8 Housing Choice Vouchers (HCVs), which have occurred as a result of the federal sequestration and related budget cuts. Minnesota Housing has been told that virtually all agencies administering HCVs in Minnesota have stopped reissuing them when clients leave the program. Each month there are fewer households assisted. Fewer vouchers in use may lower the baseline for federal renewal funding for the next year, creating a downward spiral in funding. Consequently, some parties have asked the Agency for a one-time supplement to federal HCV funding to preserve or stabilize the number of vouchers in use in order to maintain federal HCV funding going into the future. Minnesota Housing will investigate the issue further to gain a better understanding of: (1) the impact that an Agency investment in the HCVs would have on future federal funding, (2) how the investment would be administered, and (3) the longer-term expectations and precedents created by this type of investment. In addition, the Agency will investigate alternative ways to address the loss of HCVs, which could include funding additional rental assistance under the Housing Trust Fund. Based on the results of this assessment, Agency staff may ask for an amendment to the 2014 AHP later in the year.

Address Specific and Critical Needs in Rental Housing Market

The types of affordable housing opportunities needed in each community across the state are different. Minnesota Housing is taking steps to provide opportunities tailored to those needs. While this strategic priority focuses on rental markets, the following activities apply to both renter and homeowner needs and programs. From a rental perspective, these activities will a play a critical role in implementing this strategic priority. During 2014, the Agency will:

- *Conduct ongoing conversations with individual communities about their housing and development needs.*

  In the current year, the Agency began a series of Community and Housing Dialogues in communities across the state. These dialogues will continue in 2014. Areas of discussion with these communities could include: (1) workforce housing, (2) housing for seniors, (3) rental properties with large units (multiple bedrooms) for large families, (4) homelessness, (5) housing for people with disabilities, (6) community recovery, and (7) rental shortages, as reflected by low vacancy rates.

- *Make communities more aware of the housing resources available from Minnesota Housing and how communities can access them to meet their unique local needs.*

  As this Affordable Housing Plan documents, Minnesota Housing provides a full spectrum of programs to finance housing to meet a wide range of needs. To make sure communities have the opportunity to address their needs, Minnesota Housing will increase and refine its efforts to make communities aware of the program options available and how to access them.

- *Implement the Governor Dayton's Housing-Jobs initiative to promote economic development in communities needing workforce housing.*

  During the 2013 Legislative Session, Minnesota Housing received $10 million for the Governor's Housing-Jobs Initiative, which will help finance affordable housing in the parts of the state where employers are poised to expand but there is not enough housing to meet the needs of the local workforce. Minnesota Housing will allocate funds to both homeowner and renter projects under this program.

- *Continue to assist seniors so that they can age in place and remain in their communities.*

  The Agency will pursue opportunities to better coordinate housing programs with human services programs that serve the elderly. Programs and policies will be refined to best support community-based housing for seniors and address housing gaps for renters and homeowners.

  In the last year, the Agency has issued three reports on housing for seniors:

  - Profile of Older Households in Minnesota,
  - Housing Assistance for Older Minnesotans, and
  - Affordable Housing and Supportive Services for Older Adults in Rural Communities Demonstration (recommendation to the Bipartisan Policy Center's Housing Commission).

Prevent and End Homelessness

With the sluggish recovery from the Great Recession, the number of people experiencing homelessness continues to grow. Homelessness occurs when people and families have no housing choices or options at all. Serving this vulnerable population is a priority of the Agency. In 2014, Minnesota Housing will:

- *Carry out ongoing core work to address homelessness, which includes financing supportive housing for people experiencing long-term homelessness, homelessness prevention assistance, rent assistance, and operating subsidies.*

  As Table 1 shows (presented earlier in the AHP), Minnesota Housing has a whole category of programs to prevent and end homelessness. Carrying out this core work will remain a priority of the Agency.

- *Reinvigorate the Minnesota Interagency Council on Homelessness (MICH), which will develop a state plan to prevent and end homelessness.*

  Homelessness is not just a housing issue. It affects the work of many state agencies. Individuals and families experiencing homelessness not only need housing options from Minnesota Housing but also may need social services and other support from the Department of Human Services, employment services from the Department of Employment and Economic Development, and financial aid and other support from the Office of Higher Education and Department of Education. As ex-offenders transition out of correctional facilities, they need stable and affordable housing options, without which they have a higher risk of becoming homeless and/or ending up back in prison. Homelessness and mobility are major barriers to educational success for school-age children.

In the last year, the 11 state agencies that make up MICH committed to the goal of preventing and ending homelessness. For the upcoming year, the center piece of MICH's work will be the creation of Minnesota's Plan to Prevent and End Homelessness (which will be a strategic document) and accompanying two-year Interagency Action Plans to implement the strategic plan. If Minnesota is to prevent and end homelessness, it will require the coordinated and diligent effort and resources of all the agencies working together.

- *Implement new rent assistance for ex-offenders transitioning out correctional institutions and highly-mobile families with school-age children.*

  Recognizing the cross-agency linkages, Governor Dayton created these across-agency initiatives. The 2013 Legislature appropriated, under the Housing Trust Fund program, $2 million for highly-mobile-families with school-age children and $1 million for ex-offenders.

- *Implement the Section 811 demonstration to provide additional housing opportunities for people with disabilities.*

  Section 811 project-based rent assistance is a new federal demonstration program with the goal of increasing the number of integrated, cost-effective, and permanent supportive housing units for people with disabilities. Minnesota has been selected, through a competitive federal process, to receive funds under this program. This program will be carried out in partnership with the Department of Human Services and start in 2014, assuming no implementation delays.

<u>Multiple Priority Activities</u>

To provide low- and moderate-income households with affordable housing options with access to opportunities and to foster strong communities, Minnesota Housing will carry out broad-based activities that span multiple program priorities. In 2014, the Minnesota Housing will:

- *Continue to use and refine its scoring criteria for selecting developments for funding (single-family and multifamily).*

  These selection criteria try to balance and achieve multiple policy goals simultaneously, including:
    - Location-based criteria that support access to opportunities:
        - Economic Integration (developments in high and middle-income neighborhoods – which are often associated with better schools, lower crime, and other opportunities),
        - Proximity to transit (which provides low-cost transportation and overall access to opportunities, such as jobs and education), and
        - Proximity to jobs and job growth (which not only provides access to employment but also fosters economic development by providing workforce housing);
    - Location-based criteria that strengthen communities and support recovery:
        - Communities heavily impacted by foreclosures, and
        - Communities with low-income residents, older housing stock, and/or large home-price declines;
    - Criteria that target resources to special populations:
        - People experiencing homelessness, and

        - Extremely low-income households (most notably those living in project-based Section 8 properties that need to be preserved); and
    - Criteria reflecting projects that are efficient and cost-effective:
        - Cost containment (low development costs per unit),
        - Leverage (funding from other sources), and
        - Readiness-to-proceed (shovel ready).

- *Work with other state agencies on cross-cutting issues that provide low- and moderate-income households with opportunities.*

  Previous discussions in this Plan mentioned several of these efforts, including the Minnesota Interagency Council on Homelessness, work with DEED on the Housing-Jobs Initiative, and work with the Departments of Education, Correction, and Human Services on providing rent assistance to highly-mobile families, ex-offenders, and people with disabilities. To provide all Minnesotans, but vulnerable populations in particular, with opportunities for success, state agencies need to work better together.

Funding by Strategic Priority

Table 3 shows Minnesota Housing's funding by strategic priority. The first two sets of priorities are "comprehensive priorities" because almost all of the Agency's funding can be allocated between the two of them. The comprehensive rental category combines two priorities – preserving federally subsidized housing and addressing specific and critical needs in rental housing markets. The last two priorities are "targeted" because only a subset of the Agency's funding is allocated to them. (It should be noted that the same funds can fulfill more than one priority. In addition, the program areas in the shaded boxes are sub-components of the overall program listed above the box.)

As the last line of Table 3 shows, Agency funding is split roughly 59/40 between homeownership and rental housing. The Agency's expansion of its homebuyer and refinancing programs over the last couple of years has led to a larger share of funds going to homeownership. In addition, homeownership programs generally require higher levels of funding per housing unit or household. As will be discussed in the following section, the 2014 AHP actually supports more renter households than homeowners.

The $32 million projected for preventing and ending homelessness accounts for 4 percent of the overall budget. These programs include rental production efforts that finance the development of supportive housing units for people experiencing long-term homelessness. Homeless programming also includes Agency rent assistance (Housing Trust Fund, Ending Long-Term Homelessness Initiative Fund, and Bridges) targeted to vulnerable populations that are homeless or at-risk of becoming homeless, including people with extremely low incomes and/or serious mental illnesses. The Agency also funds prevention efforts through the Family Homeless Prevention and Assistance Program (FHPAP), which provides short-term assistance for services and housing payments. Finally, under HOPWA, the Agency provides grants to meet the housing needs of people with AIDS, HIV-positive status, or a related disease.

In 2013, the Agency projects that it will invest approximately $187 million to prevent foreclosures and support community recovery. On the prevention side, the Agency expects to invest about $526,000 on foreclosure counseling through the HECAT program. In addition, during the 2013 AHP, Minnesota Housing committed nearly $1 million of National Foreclosure Mitigation Counseling (NFMC) funds from the federal government for foreclosure counseling. While these funds were committed under the previous AHP, they will support some 2014 activity. If there is another round of NFMC funding during the 2014 AHP, Minnesota Housing will apply again. Minnesota has been one of the most successful states in securing and using NFMC funds. Since the creation of the program and 7 rounds of funding, the state has received $15.6 million, which is the third highest among states. Only California and Pennsylvania, two more populous states, have received more.

The agency will potentially invest over $186 million for the purchase and rehabilitation of foreclosed properties or the construction, purchase, or rehabilitation of any property in a zip code that has been heavily impacted by the foreclosure crisis. The last category accounts for the majority of the expected investments. The Agency encourages and incents investment in high impact zip codes through several mechanisms, which include awarding selection credit in the RFP process to developments located in these zip codes.

The split of program funding in Table 3 by strategic priority is not an actual allocation, but a projection based on historical investment patterns with adjustments for recent program changes. The actual splits will be made as investment decisions are made by homebuyers, homeowners, developers, and the Agency. Thus, Table 3 provides a general picture of how the Agency expects the funds to be invested.

Table 3: 2014 Funding by Strategic Priority

			Comprehensive Priorities		Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs	Homelessness	Community Foreclosure Recovery
	Homebuyer and Home Refinance	**$431,338,750**	**$431,338,750**	**$0**	**$0**	**$158,362,706**
1	Home Mortgage Loans	$376,000,000	$376,000,000			$135,968,426
2	Targeted Mortgage Opportunity Program	$10,000,000	$10,000,000			$5,325,670
3	Mortgage Credit Certificates (MCC)	$25,600,000	$25,600,000			$9,257,425
4	Deferred Payment Loan Program	$4,000,000	$4,000,000			$1,714,286
5	HOME HELP	$3,400,000	$3,400,000			$2,136,398
6	Monthly Payment Loan Program	$7,000,000	$7,000,000			$2,825,000
7	Single Family Interim Lending	$1,522,750	$1,522,750			$609,100
8	Habitat for Humanity Initiative	$2,000,000	$2,000,000			N/A
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,316,000	$1,316,000			$526,400
9a	HECAT - Enhanced Financial Capacity Initiative	$500,000	$500,000			$0
	Home Improvement	**$20,930,000**	**$20,930,000**	**$0**	**$0**	**$3,621,855**
10	Home Improvement Loan Program	$13,830,000	$13,830,000			$2,385,407
10a	Targeted Home Improvement Interest Write-Down	$500,000	$500,000			$86,240
11	Rehabilitation Loan Program	$6,600,000	$6,600,000			$1,150,207
	Rental Production- New Construction and Rehabilitation	**$86,000,963**	**$0**	**$86,000,963**	**$2,846,250**	**$12,106,525**
12	Multifamily Amortizing First Mortgages	$50,000,000		$50,000,000	$1,912,500	$7,310,290
12a	Low and Moderate Income Rental (LMIR)	$40,000,000		$40,000,000	$1,530,000	$5,848,232
12b	MAP Lending (Multifamily Accelerated Processing)	$10,000,000		$10,000,000	$382,500	$1,462,058
13	Flexible Financing for Capital Costs (FFCC)	$4,500,000		$4,500,000	$114,750	$657,926
14	Low-Income Housing Tax Credits (LIHTC)	$8,201,743		$8,201,743	$666,000	$1,199,142
15	Affordable Rental Preservation	$20,102,939		$20,102,939	$153,000	$2,939,166
15a	*Affordable Rental Investment Fund - Preservation (PARIF)*	*$12,722,070*		*$12,722,070*	*$96,825*	*$1,860,040*
15b	*HOME HARP*	*$7,380,869*		*$7,380,869*	*$56,175*	*$1,079,126*
16	Housing Trust Fund (Capital)	$0		$0	$0	$0
17	Publicly Owned Housing Program (POHP)	$58,281		$58,281		$0
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$3,138,000		$3,138,000		
	Rental Assistance Contract Administration	**$183,890,970**	**$0**	**$183,890,970**	**$0**	**$0**
19	Section 8 - Performance Based Contract Administration (PBCA)	$113,000,000		$113,000,000		
20	Section 8 - Traditional Contract Administration (TCA)	$70,000,000		$70,000,000		
21	Section 236	$890,970		$890,970		

			Comprehensive Priorities		Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs	Homelessness	Community Foreclosure Recovery
	Resources to Prevent and End Homelessness (Non-Capital)	**$29,020,389**	**$0**	**$29,020,389**	**$29,020,389**	**$0**
22	Housing Trust Fund (HTF)	$14,407,373		$14,407,373	$14,407,373	
23	Ending Long-Term Homelessness Initiative Fund (ELHIF)	$3,420,271		$3,420,271	$3,420,271	
24	Bridges	$3,111,500		$3,111,500	$3,111,500	
25	Section 811 Demonstration	$80,000		$80,000	$80,000	
26	Family Homeless Prevention and Assistance Program (FHPAP)	$7,862,000		$7,862,000	$7,862,000	
27	Housing Opportunities for Persons with AIDS (HOPWA)	$139,245		$139,245	$139,245	
	Rental Portfolio Management	**$6,500,000**	**$0**	**$6,500,000**	**$0**	**$0**
28	Asset Management	$3,000,000		$3,000,000		
29	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,500,000		$3,500,000		
	Multiple Use Resources	**$33,568,827**	**$17,431,163**	**$10,396,744**	**$191,250**	**$12,792,529**
30	Economic Development and Housing/ Challenge (EDHC)	$27,827,907	$17,431,163	$10,396,744	$191,250	$12,792,529
30a	*Request for Proposals (RFP) - Multifamily and Single-Family*	*$17,327,907*	*$6,931,163*	*$10,396,744*	*$191,250*	*$4,292,529*
30b	*Twin Cities Community Land Bank / Family Housing Fund*	*$8,500,000*	*$8,500,000*			*$8,500,000*
30c	*Community Owned Mobile Home Parks*	*$2,000,000*	*$2,000,000*			
30d	*Housing Infrastructure Bond*	*$0*	*$0*			
31	Technical Assistance and Operating Support	$2,740,920	TBD	TBD	TBD	TBD
32	Non-Profit Capacity Building Loan Program	$1,000,000	TBD	TBD	TBD	TBD
33	Strategic Priority Contingency Fund	$2,000,000	TBD	TBD	TBD	TBD
	Other	**$3,591,115**	**$0**	**$0**	**$0**	**$0**
34	Administrative Expenses HOME	$592,222	TBD	TBD	TBD	TBD
35	Manufactured Home Relocation Trust Fund	$1,279,536	TBD	TBD	TBD	TBD
36	Flood Disaster	$0	TBD	TBD	TBD	TBD
37	Disaster Relief Contingency Fund	$1,719,357	TBD	TBD	TBD	TBD
	Total	$794,841,013	$469,699,913	$315,809,066	$32,057,889	$186,883,615
	Percentage Split *		59%	40%	4%	24%

Shaded activities are sub-allocations of the program above.

* The sum of homeownership and rental priorities do not equal the total funding because $9.3 million is not allocated to a priority.

Household and Unit Projections

Table 4 shows that Agency's forecast of how many households or housing units will be assisted. As the shown in the last line of the table, Minnesota Housing expects to assist roughly 65,000 households or units. Under the AHP's projections, homeownership programs account for about 59 percent of the funds (see Table 3) but only 26 percent of the households/units (see Table 4). In contrast, rental programs account for 40 percent of the funds but 74 percent of the households/units. This shift from homeowners to renters (when the analysis changes from funding levels to households assisted) occurs because homeownership programs require more resources per household. A typical Home Mortgage Loan is $135,000. In contrast, a typical annual rent subsidy is $6,000. The homelessness priority accounts for 4 percent of the funds, compared with 21 percent of the households and units assisted. Foreclosure recovery accounts for 24 percent of the funds, compared with 10 percent of households/units.

Table 4: 2014 Forecast of Assisted Households or Housing Units by Program and Strategic Priority

			Comprehensive Priorities		Targeted Priorities	
		AHP Total	**Successful Home-ownership**	**Rental Housing 1. Federal Preservation 2. Critical Needs**	**Home-lessness**	**Community Foreclosure Recovery**
	Homebuyer and Home Refinance	**15,420**	**15,420**	**0**	**0**	**5,991**
1	Home Mortgage Loans	2,785	2,785			1,007
2	Targeted Mortgage Opportunity Program	44	44			24
3	Mortgage Credit Certificates (MCC)	*Part of Home-Mortgage and Targeted-Mortgage Production*				
4	Deferred Payment Loan Program					
5	HOME HELP					
6	Monthly Payment Loan Program					
7	Single Family Interim Lending	*Part of EDH/Challenge*				
8	Habitat for Humanity Initiative	24	24			N/A
9	Homebuyer Education, Counseling, & Training (HECAT)	12,400	12,400			4,960
9a	HECAT - Enhanced Financial Capacity Initiative	167	167			0
	Home Improvement	**1,132**	**1,132**	**0**	**0**	**196**
10	Home Improvement Loan Program	838	838			145
10a	Targeted Home Improvement Interest Write-Down	Part of Home Improvement Loans				
11	Rehabilitation Loan Program	293	293			51
	Rental Production- New Construction and Rehabilitation	**2,518**	**0**	**2,518**	**85**	**336**
12	Multifamily RFP/HTC/Pipeline Production (including EDHC)	2,296		2,296	85	336
13	Low and Moderate Income Rental (LMIR)	*Part of RFP/HTC/Pipeline Production*				
13a	MAP Lending (Multifamily Accelerated Processing)					
14	Flexible Financing for Capital Costs (FFCC)					
15	Low-Income Housing Tax Credits (LIHTC)					
16	Affordable Rental Preservation (PARIF and HOME)					
17	Housing Trust Fund (Capital)					
18	Economic Development and Housing /Challenge - MF RFP and Infrastructure Bonds					
19	Publicly Owned Housing Program (POHP)	13		13		
20	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	209		209		

			Comprehensive Priorities			Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs		Home-lessness	Community Foreclosure Recovery
	Rental Assistance Contract Administration	**31,485**	**0**	**31,485**		**0**	**0**
21	Section 8 - Performance Based Contract Administration (PBCA)	18,833		18,833			
22	Section 8 - Traditional Contract Administration (TCA)	11,667		11,667			
23	Section 236	985		985			
	Resources to Prevent and End Homelessness (Non-Capital)	**13,884**	**0**	**13,884**		**13,884**	**0**
24	Housing Trust Fund (HTF)	2,383		2,383		2,383	
25	Ending Long-Term Homelessness Initiative Fund (ELHIF)	834		834		834	
26	Bridges	662		662		662	
27	Section 811 Pilot	28		28		28	
28	Family Homeless Prevention and Assistance Program (FHPAP)	9,828		9,828		9,828	
29	Housing Opportunities for Persons with AIDS (HOPWA)	149		149		149	
	Rental Portfolio Management	**433**	**0**	**433**		**0**	**0**
30	Asset Management	200		200			
31	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	233		233			
	Multiple Use Resources	**408**	**408**	**0**		**0**	**172**
32	Economic Development and Housing/ Challenge						
32a	Request for Proposals (RFP) - **Impact Fund Only**	260	260				104
32b	Twin Cities Community Land Bank/Family Housing Fund	68	68				68
32c	Community Owned Mobile Home Parks	80	80				0
32d	Housing Infrastructure Bonds - **Impact Fund Only**	0	0				0
33	Technical Assistance and Operating Support	N/A					
34	Non-Profit Capacity Building Loan Program	N/A					
35	Strategic Priority Contingency Fund	TBD	TBD	TBD		TBD	TBD
	Other	**86**	**86**	**0**		**0**	**0**
36	Administrative Expenses HOME	N/A					
37	Manufactured Home Relocation Trust Fund	TBD	TBD			TBD	
38	Flood Disaster	0					
39	Disaster Relief Contingency Fund	86	86				
	Total	65,366	17,045	48,320	0	13,969	6,694
			26%	74%		21%	10%

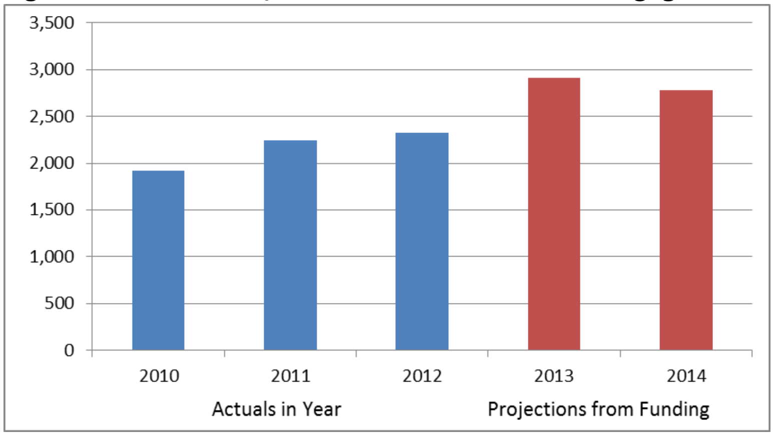
Table 4 shows some programs shaded in gray. With respect to the homebuyer programs, these programs support the Agency's home mortgage loans with enhancements, such as down-payment and closing cost loans. Because all the homes supported by these enhancements are also supported by the Agency's home mortgage loans, the table does not count the enhanced units in the total to avoid double counting. With respect to the rental production programs, funds from multiple programs often go into the same properties. A development could receive a first mortgage from LMIR, housing tax credits, and a deferred loan through the Economic Development and Housing/Challenge program. To avoid double counting, Table 4 presents all the rental units financed with these programs in combination.

The following graphs show the estimated number of households/units that will be assisted with 2014 funding in relation to the number of households/units assisted in previous years. The graphs are organized by the broad program categories and exclude activity related to disasters/floods, which are intermittent and not part of the Agency's baseline activity.

Homebuyer and Home Refinance Programs

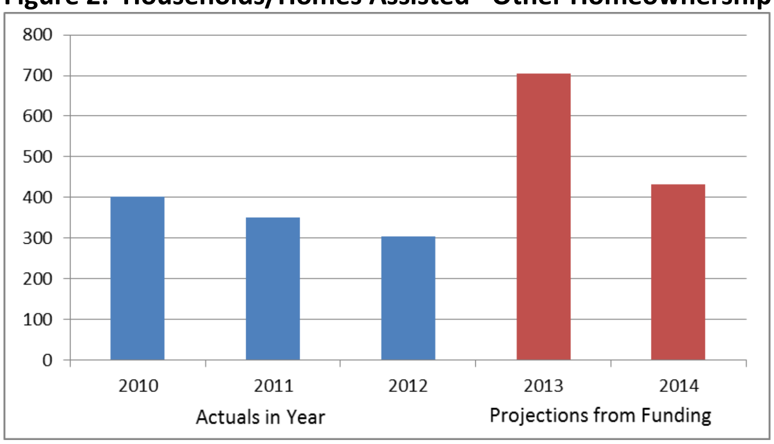
Figure 1 shows the Agency's production in home mortgage loans recovering after the housing market collapse in 2008. The large increase in production in 2013 reflects the expanded lending activity that the Agency is carrying out with its redesigned programs. While 2013 has been a very strong year for the Agency's home mortgage programs, production will likely fall a little short of the projected 2,900 loans.

Figure 1: Households/Homes Assisted - Home Mortgage Loan Program



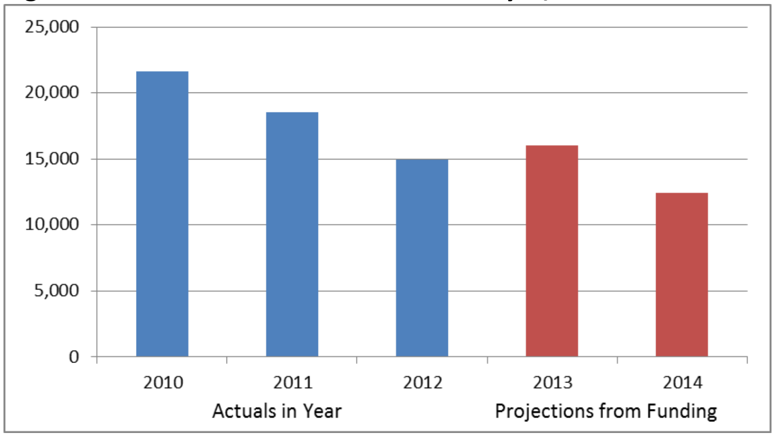
The large increase in other homeownership opportunities in 2013 (Figure 2) reflects a larger than typical Economic Development and Housing/Challenge budget for single-family RFP activities – which was supported by the availability of housing infrastructure bonds and Pool 3/Foundation funds. Production in 2014 will return to a more typical level. (The programs captured in Figure 2 include the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program, and Single Family Interim Lending.)

Figure 2: Households/Homes Assisted - Other Homeownership Opportunities



The decline in education and counseling assistance (Figure 3) largely reflects the reduced funding and need for foreclosure counseling as mortgage delinquency and foreclosure rates in Minnesota have declined since the peak of the foreclosure crisis. While the number of mortgage delinquencies and foreclosures has declined, there is still a critical need for these counseling resources.

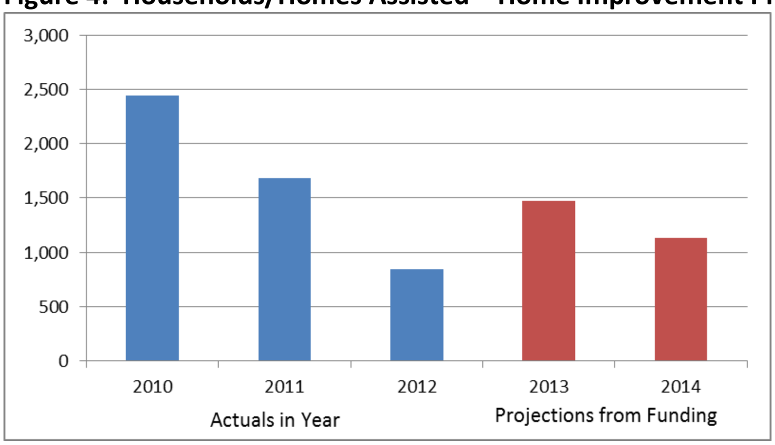
Figure 3: Households Assisted – Homebuyer/Homeowner Education and Counseling



Home Improvement Programs

Home improvement production (Figure 4) has been limited since the downturn in the economy in 2008. Production was high in 2010 because of federal stimulus funds that financed the Energy Saver Rebate program provided an incentive for energy efficiency improvements. The 2013 projection shown in the graph looks to be overly optimistic with the hope that production would have recovered more quickly. When 2013 is completed, production will likely be about 1,000 loans. (Figure 4 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

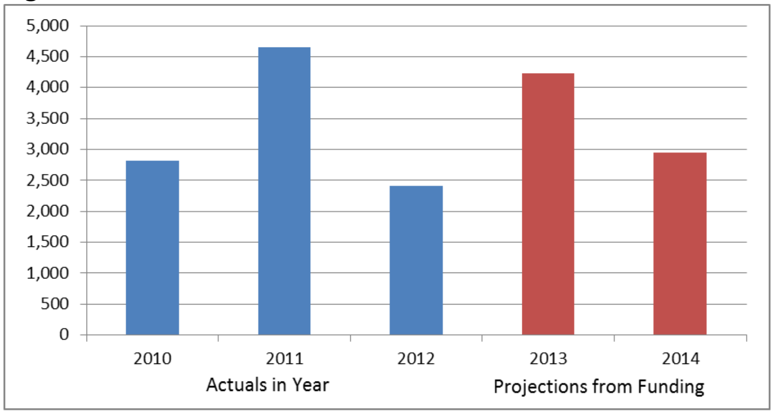
Figure 4: Households/Homes Assisted – Home Improvement Programs



Rental Production and Rental Portfolio Management

The varying availability and use of federal stimulus funds and state capital investments (general obligation and housing infrastructure bonds) has led to uneven rental production levels (new construction and rehabilitation) For example, bond financing for state capital investments was available in 2013, but will not be available in 2014. (Figure 5 captures all the programs in the rental production category, the multifamily portion of the Economic Development and Housing/Challenge program, and all the activity in the rental portfolio management category.)

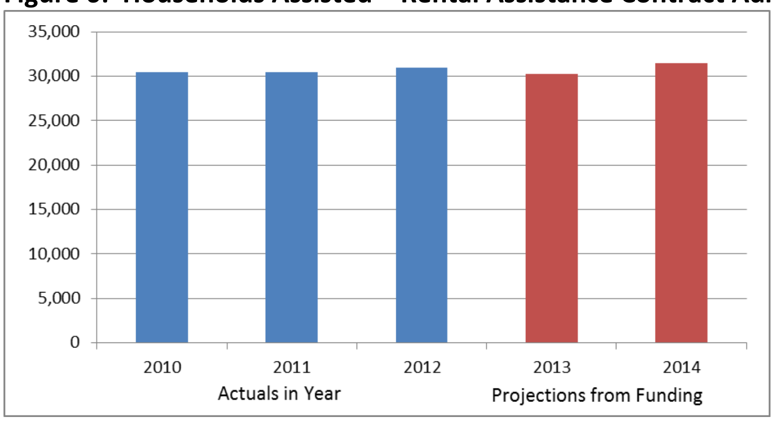
Figure 5: Units Assisted – Rental Production



Rental Assistance Contract Administration

As shown in Figure 6, activity in the Section 8 and 236 contract administration has been very steady over the last several years.

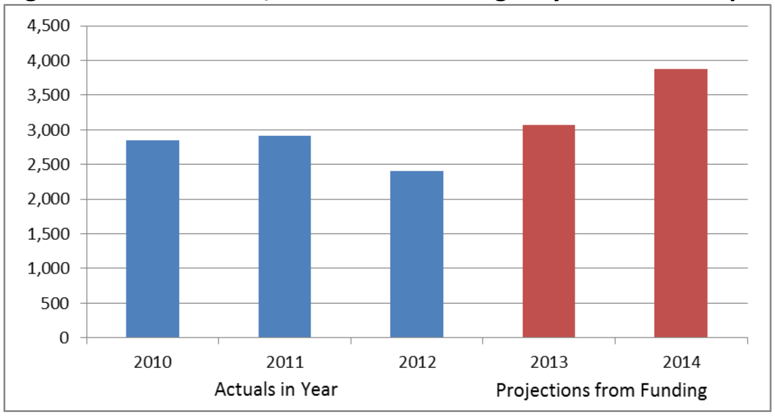
Figure 6: Households Assisted – Rental Assistance Contract Administration



Resources to Prevent and End Homelessness (Non-Capital)

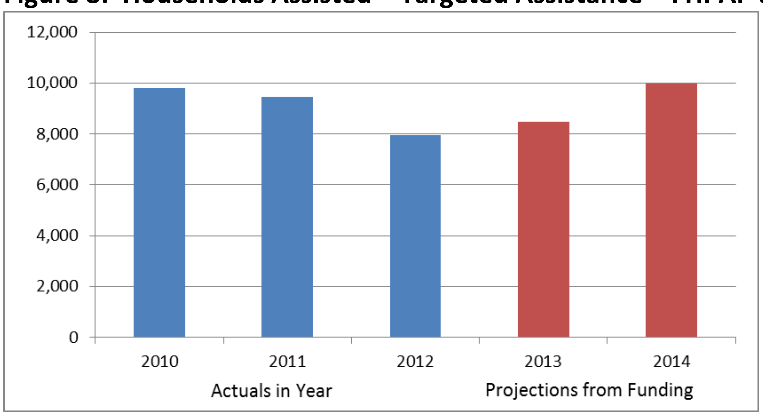
Activity under the Agency's rental and operating assistance programs (Housing Trust Fund, Ending Long-Term Homelessness Initiative Fund, and Bridges) has been relatively stable over the last few years. (See Figure 7.) There will be an increase in 2014 because the Legislature made available for the first time $3 million for rent assistance for highly mobile families with school-age children and for ex-offenders transitioning out of correctional facilities. In addition, the Legislature made available an additional $1.4 million for project-based rent assistance. (These funds will be split between state fiscal years 2014 and 2015.)

Figure 7: Households/Units Assisted – Agency Rental and Operating Assistance



The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and Housing Opportunities Program for Persons with AIDS (HOPWA) has been relatively steady (around 10,000). See Figure 8. Activity dropped in 2012 as a result of administrative complications related to the state government shutdown. The projected number of households assisted for 2013 (as shown in the graph) is probably too low. The assumed assistance per household used in the projections now appears to be too high. With a lower level of assistance per household, there are additional funds to serve more households. The 2014 level should be closer to the typical level.

Figure 8: Households Assisted – Targeted Assistance – FHPAP and HOPWA



Funding by Source

Table 5 shows the 2014 funding levels by source of funds.

Table 5: 2014 Funding by Source

	Original 2013 AHP	Proposed 2014 AHP
Federal Funds	$207,008,946	$207,185,049
State Appropriations	$73,754,883	$71,249,898
State Capital Investments (GO & Housing Infrastructure Bonds)	$35,500,000	$58,281
Bond Proceeds & Other Mortgage Capital *	$432,500,000	$441,600,000
Housing Investment Fund (Pool 2)	$64,500,000	$50,000,000
Housing Affordability Fund (Pool 3)	$23,677,869	$24,747,785
Total	$836,941,698	$794,841,013

* This includes funds for Mortgage Credit Certificates (MCCs). Previously, the AHP reported the bonding authority that was allocated for MCC use. The AHP now reports the MCC authority being used, which 25 percent less than the bonding authority (reflecting a 25 percent conversion rate). The MCC funding that was adopted in the 2013 AHP has been revised to reflect the lower converted amount.

Overall, 2014 funding from each source is quite similar to 2013, with one exception. The Legislature did not make any new general obligation or housing infrastructure bond proceeds available for Minnesota Housing. The $58,281 available in 2014 is unused general obligation bond proceeds from previous years. Behind the flat funding levels from each source, there are some offsetting changes.

- For 2014, the Legislature increased state appropriations for the Agency's regular programs, which largely offset $12.7 of disaster funds made available just for 2013.
- Overall in 2014, there is a $9 million increase in funding from bond proceeds and other mortgage capital. Behind this increase is a $26 million increase for Home Mortgage Loans and a $13 million increase for Mortgage Credit Certificates, which is partially offset by a $30 million decrease in multifamily amortizing mortgages.
- Behind the $14 million decrease in Pool 2 funding is: (1) a $10 million reduction in funding for LMIR; (2) a $6.5 million reduction for Home Improvement Loans; (3) the elimination of a $4 million contract-for-deed program in Greater Minnesota (the proposed program was not viable); (4) the addition of $8 million for a new Targeted Mortgage Opportunity Program (an effort to provide mortgage financing to households having trouble accessing credit in the current market, particularly households of color or Hispanic ethnicity); and (5) a $2 million increase for Monthly Payment Loans (amortizing loans for down-payment and closing-cost assistance).
- With increased earnings, Minnesota Housing can allocate more funding from Pool 3/Foundation.

To identify funds available under this plan by source, staff projected the resources that will be available to Minnesota Housing from each source during the year. The plan allocates funds from five primary sources as described below. The precise amount of some funding categories is known at the time the plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the year. Staff used various analytical approaches (including fund cash flow analysis) to project the amount of resources available for housing programs.

Federal Resources. There are two types of federal resources: (1) appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing, and (2) housing tax credits. For purposes of the plan, current funding levels are used for the HUD appropriations – Section 8/236, HOME, and Housing Opportunities for Persons with AIDS (HOPWA) – and will be adjusted once Congress has adopted the year's budget. The amount of federal housing tax credits is based on a per capita formula and may vary slightly each year.

State Appropriations. The amount of funding from the state is based on the 2014-15 general fund budget adopted by the 2013 Minnesota Legislature. The Agency generally splits the appropriations evenly between state fiscal years 2014 and 2015.

State Capital Investment. These funds come from the state capital budget (bonding bill) and include general obligation and housing infrastructure bond proceeds.

Agency Bond Proceeds and Other Mortgage Capital. Bond proceeds are generated by the issuance of tax-exempt bonds. Tax-exempt bond proceeds have historically been limited by the amount of new bonding authority made available to the Agency under a state allocation formula, the projected amount of bonds refunded over the next year, and an estimate of the amount of bonding authority contributed by cities and counties for issuance on their behalf. However, market conditions have made it difficult to fully utilize all of the available bonding authority. To access these under-utilized resources, the Agency has started issuing Mortgage Credit Certificates, which counts against the state's bonding authority. The Agency also has started selling some of its mortgage-backed securities on the secondary market to access attractively-priced private capital. In addition, in 2014, Minnesota Housing will be accessing a new source of mortgage capital for rental housing. The Agency recently became a MAP (Multifamily Accelerated Processing) lender through which Minnesota Housing originates FHA-insured mortgages that are financed through a third-party investor.

Agency Resources. Minnesota Housing generates resources from its lending activities and makes them available for investment in housing programs. Agency resources are currently categorized as follows:

- Housing Investment Fund (also known as "Pool 2"). The Housing Investment Fund's balance is set according to the net asset requirements and investment guidelines adopted by the Board in April, 2007 after review and confirmation with the rating agencies and the agency's cash flow projections. The level of funding that must be retained in Pool 2 is an amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3/Foundation) to be not less than the combined net assets of the same funds for the immediately preceding audited fiscal year end. The practical result of this requirement is to set the amount of current period earnings as an upper limit on the amount that can be annually transferred from Pool 2 to Pool 3. According to Board policy, the use of Pool 2 funds is limited to investment quality loans and investment grade securities as defined by the Agency. Most of the net assets in Pool 2 are already invested in housing loans, so it is the Pool 2 liquid assets and expected loan repayments that are available for budgeting in the Plan.

- Housing Affordability Fund (also known as "Pool 3/Foundation"). The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund above, and its balance is the net assets in excess of the required balances in Pools 1 and 2. The sources of ongoing funding for Pool 3 are transfers of a portion of current period earnings from Pool 2, combined with any repayments or prepayments from loans previously funded under Pool 3. This fund is more flexible than the Housing Investment Fund as it may be used for programs not resulting in amortizing, investment quality loans, including deferred loans and grants.

Notes

[1] A credit is used to offset 10 years of tax liability. Thus, a $100,000 tax credit will generate $1 million of tax breaks over the 10 years. In today's syndication market, credits can sell for 80 to 90 cents on the dollar, or higher.

[2] U.S. Department of Housing and Urban Development, Notice on Median Family Incomes for FY 2012 (December 1, 2011); http://www.huduser.org/portal/datasets/il/il13/Medians2013.pdf.

[3] Minnesota Housing analysis of data from the United State Census Bureau, *2011 American Community Survey.*

[4] Minnesota Housing, *Regional Distribution of Minnesota Housing Assistance* (August 2012); http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa_011777.pdf.

[5] Minnesota Department of Employment and Economic Development (DEED), *Local Area Unemployment Statistics* (Seasonally adjusted unemployment); http://www.positivelyminnesota.com/apps/lmi/laus/CurrentStats.aspx; accessed September 11, 2013.

[6] Minnesota Housing analysis of sheriff sales data from HousingLink.

[7] Minneapolis Area Association of Realtors, *Monthly Market Indicators* (June 2011 and June 2013); http://www.mplsrealtor.com/market.aspx; accesses July 31, 2013. To account for seasonality of prices, the analysis involves June to June comparisons.

[8] Marquette Advisors, *Apartment Trends* (4th Quarter 2009 and 2nd Quarter 2013).

[9] Minnesota Housing analysis of data from the United States Census Bureau, *2000 Decennial Census* and *2011 American Community Survey*. Incomes and costs are adjusted for inflation.

[10] Minnesota has 11 primary job classes, with 5 having an average weekly wage above $1,000 and six below $1,000. Four of the five higher-wages industries lost jobs over the last five years, with construction and manufacturing having the largest losses of all industries. In contrast, three of the six lower-wage industries gained jobs, with the largest gains in education and health services. Data from The Department of Employment and Economic Development's Quarterly Census of Employment and Wages (2007 and 2012).

[11] Minneapolis Area Association of Realtors, Monthly Market Indicators (June 2011 and June 2013); http://www.mplsrealtor.com/market.aspx; accesses July 31, 2013. To account for seasonality of prices, the analysis involves June to June comparisons.

[12] Freddie Mac, *Primary Mortgage Market Survey* (as reported by the Board of Governors of the Federal Serve System); http://www.federalreserve.gov/releases/h15/data.htm; accessed September 11, 2013.

[13] Marquette Advisors, Apartment Trends (1st Quarter 2011 and 2nd Quarter 2013).

[14] Minnesota Housing analysis of data from the United States Census Bureau*, 2011 American Community Survey*.

[15] Federal Reserve Governor Elizabeth A. Duke, *Comments on Housing and Mortgage Markets at the Mortgage Bankers Association's Mid-Winter Housing Finance Conference* (March 8, 2013); http://www.federalreserve.gov/newsevents/speech/duke20130308a.htm.

[16] Minnesota Housing analysis of data from the United States Census Bureau, *American Community Survey* (2008 and 2011).

[17] The current share is from the United States Census Bureau, *American Community Survey* (2011); and the 2035 figure is from Minnesota State Demographic Center, *Minnesota Population Projections by Race and Hispanic Origin, 2005 to 2035* (January 2009).

[18] Wilder Research, *Statewide Homeless Study Results* (October 25, 2012).

[19] The analysis applies to renter households with incomes from $25,000 up to program income limits for first-time homebuyers.

[20] For details see: http://www.hocmn.org/home/column-1/emhi-resources/.

[21] Minnesota Homeownership Center, *2012 Foreclosure Report*.

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Appendix A

2014 Program Funding by Source

Appendix A: 2014 Program Funding by Source - Funds Available for Commitment

		2014 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2) - Regular	Housing Investment Fund (Pool 2) - Revolving Funds	Housing Affordability Fund (Pool 3) - Regular	Housing Afffordability Fund (Pool 3) - Revolving Funds
	Homebuyer and Home Refinance	**$431,338,750**	**$3,400,000**	**$4,597,065**	**$0**	**$401,600,000**	**$16,000,000**	**$0**	**$5,741,685**	**$0**
1	Home Mortgage Loans	$376,000,000	$0	$0	$0	$376,000,000	$0	$0	$0	$0
2	Targeted Mortgage Opportunity Program	$10,000,000	$0	$0	$0	$0	$8,000,000	$0	$2,000,000	$0
3	Mortgage Credit Certificates (MCC)	$25,600,000	$0	$0	$0	$25,600,000	$0	$0	$0	$0
4	Deferred Payment Loan Program	$4,000,000	$0	$2,758,315	$0	$0	$0	$0	$1,241,685	$0
5	HOME HELP	$3,400,000	$3,400,000	$0	$0	$0	$0	$0	$0	$0
6	Monthly Payment Loan Program	$7,000,000	$0	$0	$0	$0	$7,000,000	$0	$0	$0
7	Single Family Interim Lending	$1,522,750	$0	$522,750	$0	$0	$0	$0	$1,000,000	$0
8	Habitat for Humanity Initiative	$2,000,000	$0	$0	$0	$0	$1,000,000	$0	$1,000,000	$0
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,316,000	$0	$1,316,000	$0	$0	$0	$0	$0	$0
9a	HECAT - Enhanced Financial Capacity Initiative	$500,000	$0	$0	$0	$0	$0	$0	$500,000	$0
	Home Improvement	**$20,930,000**	**$0**	**$4,594,171**	**$0**	**$0**	**$13,500,000**		**$2,835,829**	**$0**
10	Home Improvement Loan Program	$13,830,000	$0	$0	$0	$0	$13,500,000	$0	$330,000	$0
10a	Targeted Home Improvement Interest Write-Down	$500,000	$0	$0	$0	$0	$0	$0	$500,000	$0
11	Rehabilitation Loan Program (RLP)	$6,600,000	$0	$4,594,171	$0	$0	$0	$0	$2,005,829	$0
	Rental Production- New Construction and Rehabilitation	**$86,000,963**	**$15,582,612**	**$15,860,070**	**$58,281**	**$40,000,000**	**$10,000,000**	**$0**	**$4,500,000**	**$0**
12	Multifamily Amortizing First Mortgages	$50,000,000	$0	$0	$0	$40,000,000	$10,000,000	$0	$0	$0
12a	Low and Moderate Income Rental (LMIR)	$40,000,000	$0	$0	$0	$30,000,000	$10,000,000	$0	$0	$0
12b	MAP Lending (Multifamily Accelerated Processing)	$10,000,000	$0	$0	$0	$10,000,000	$0	$0	$0	$0
13	Flexible Financing for Capital Costs (FFCC)	$4,500,000	$0	$0	$0	$0	$0	$0	$4,500,000	$0
14	Low-Income Housing Tax Credits (LIHTC)	$8,201,743	$8,201,743	$0	$0	$0	$0	$0	$0	$0
15	Affordable Rental Preservation (PARIF and HOME HARP)	$20,102,939	$7,380,869	$12,722,070	$0	$0	$0	$0	$0	$0
16	Housing Trust Fund (Capital)	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	Publicly Owned Housing Program (POHP)	$58,281	$0	$0	$58,281	$0	$0	$0	$0	$0
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$3,138,000	$0	$3,138,000	$0	$0	$0	$0	$0	$0
	Rental Assistance Contract Administration	**$183,890,970**	**$183,890,970**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
19	Section 8 - Performance Based Contract Administration (PBCA)	$113,000,000	$113,000,000	$0	$0	$0	$0	$0	$0	$0
20	Section 8 - Traditional Contract Administration (TCA)	$70,000,000	$70,000,000	$0	$0	$0	$0	$0	$0	$0
21	Section 236	$890,970	$890,970	$0	$0	$0	$0	$0	$0	$0
	Resources to Prevent and End Homelessness (Non-Capital)	**$29,020,389**	**$219,245**	**$25,380,873**	**$0**	**$0**	**$0**	**$0**	**$3,420,271**	**$0**
22	Housing Trust Fund (HTF) - **Net Activity**	$14,407,373	$0	$14,407,373	$0	$0	$0	$0	$0	$0
22a	Funding for new contracts	$3,935,134	$0	$3,935,134	$0	$0	$0	$0	$0	$0
22b	Adj. to spread two-year contracts over two years	$10,472,239	$0	$10,472,239	$0	$0	$0	$0	$0	$0
23	Ending Long-Term Homelessness Initiative Fund (ELHIF) - **Net Activity**	$3,420,271	$0	$0	$0	$0	$0	$0	$3,420,271	$0
23a	Funding for new contracts	$1,719,000	$0	$0	$0	$0	$0	$0	$1,719,000	$0
23b	Adj. to spread two-year contracts over two years	$1,701,271	$0	$0	$0	$0	$0	$0	$1,701,271	$0
24	Bridges - **Net Activity**	$3,111,500	$0	$3,111,500	$0	$0	$0	$0	$0	$0
24a	Funding for new contracts	$400,000	$0	$400,000	$0	$0	$0	$0	$0	$0
24b	Adj. to spread two-year contracts over two years	$2,711,500	$0	$2,711,500	$0	$0	$0	$0	$0	$0
25	Section 811 Demonstration	$80,000	$80,000	$0	$0	$0	$0	$0	$0	$0
26	Family Homeless Prevention and Assistance Program (FHPAP) - **Net**	$7,862,000	$0	$7,862,000	$0	$0	$0	$0	$0	$0
26a	Funding for new contracts	$0	$0	$0	$0	$0	$0	$0	$0	$0
26b	Adj. to spread two-year contracts over two years	$7,862,000	$0	$7,862,000	$0	$0	$0	$0	$0	$0
27	Housing Opportunities for Persons with AIDS (HOPWA)	$139,245	$139,245	$0	$0	$0	$0	$0	$0	$0
	Rental Portfolio Management	**$6,500,000**	**$3,500,000**	**$0**	**$0**	**$0**	**$0**	**$0**	**$3,000,000**	**$0**
28	Asset Management	$3,000,000	$0	$0	$0	$0	$0	$0	$3,000,000	$0
29	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,500,000	$3,500,000	$0	$0	$0	$0	$0	$0	$0
	Multiple Use Resources	**$33,568,827**	**$0**	**$17,818,827**	**$0**	**$0**	**$2,000,000**	**$8,500,000**	**$4,250,000**	**$1,000,000**
30	Economic Development and Housing/ Challenge (EDHC)	$27,827,907	$0	$17,327,907	$0	$0	$2,000,000	$8,500,000	$0	$0
31	Technical Assistance and Operating Support	$2,740,920	$0	$490,920	$0	$0	$0	$0	$2,250,000	$0
32	Non-Profit Capacity Building Loan Program	$1,000,000	$0	$0	$0	$0	$0	$0	$0	$1,000,000
33	Strategic Priority Contingency Fund	$2,000,000	$0	$0	$0	$0	$0	$0	$2,000,000	$0

Appendix A: 2014 Program Funding by Source - Funds Available for Commitment

		2014 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2) - Regular	Housing Investment Fund (Pool 2) - Revolving Funds	Housing Affordability Fund (Pool 3) - Regular	Housing Afffordability Fund (Pool 3) - Revolving Funds
	Other	**$3,591,115**	**$592,222**	**$2,998,893**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
34	Administrative Expenses HOME	$592,222	$592,222	$0	$0	$0	$0	$0	$0	$0
35	Manufactured Home Relocation Trust Fund	$1,279,536	$0	$1,279,536	$0	$0	$0	$0	$0	$0
36	Flood Disaster	$0	$0	$0	$0	$0	$0	$0	$0	$0
37	Disaster Relief Contingency Fund	$1,719,357	$0	$1,719,357	$0	$0	$0	$0	$0	$0
	Total	**$794,841,013**	**$207,185,049**	**$71,249,898**	**$58,281**	**$441,600,000**	**$41,500,000**	**$8,500,000**	**$23,747,785**	**$1,000,000**

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Appendix B

2014 Program Narratives

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2014 Affordable Housing Plan
Appendix B: Program Narratives

Contents

Notes on reading the program narratives:

- "Housing Investment Fund" and "Pool 2" refer to the same resources.
- "Housing Affordability Fund" and "Pool 3/Foundation" refer to the same resources.
- The sum of the projections for the number of housing units or households assisted by individual programs during the plan period exceed the total number of households projected to be served across all programs. This occurs because some households or housing units will receive assistance from multiple programs in order to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation and program trends.
- Several programs have multiple funding sources which may necessitate some differences in program rules depending on the funding sources.
- The tables in the narratives show funds available for commitment in 2014. Previous AHPs also showed committed funds that had not yet disbursed. The 2014 narratives no longer show these committed balances for display simplicity.

Home Mortgage Loans

Minnesota Housing's home mortgage loans are fully-amortizing first mortgage loans at affordable interest rates for low- and moderate-income homebuyers. Participating first mortgage lenders throughout the state originate the loans for sale under the program. Home mortgage loans help Minnesota Housing to promote and support successful homeownership by offering financing with affordable interest rates, access to down-payment and closing cost loans for eligible borrowers, and homebuyer education. The program supports borrowers traditionally not served by the private market.

In December 2012, significant changes to Minnesota Housing home mortgage loans were implemented which primarily resulted in expanding Minnesota Housing's borrower pool. The redesigned program contains one mortgage program designed for first-time homebuyers ("Start Up") with borrower access to three down-payment and closing cost (DPA) loan options, including two interest-free deferred loan options and a new interest-bearing, fully-amortizing loan option.

Traditionally, Minnesota Housing has financed its mortgage programs with mortgage revenue bond (MRB) proceeds. In addition, in the last year the Agency added a secondary market execution option (loans financed with proceeds from selling the Agency's mortgaged-backed securities) for both MRB-compliant home mortgage loans and expanded loan offerings available to non-first-time homebuyers ("Step Up"). These expanded options include both home purchase and mortgage refinance options. Loans sold on the secondary market are not subject to MRB tax-exempt bond requirements, unless the borrower receives a mortgage credit certificate (MCC).

By redesigning its home mortgage loan programs to include first mortgage programs for non-first-time homebuyers, the Agency has improved and adapted loan products to ensure a needs-based program. The Agency remains committed through its program redesign to continue to serve emerging market populations (households of color or Hispanic ethnicity) and households with incomes below 80 percent of area median income (AMI).

Current income limits for one and two person households:

Property Location	Maximum
Minneapolis/Saint Paul metro area	$83,900
Rochester	$81,300
Balance of State	$73,900

Current income limits for three or more person households:

Property Location	Maximum
Minneapolis/Saint Paul metro area	$96,485
Rochester	$93,495
Balance of State	$84,985

Maximum loan amounts:

- $298,125 in the Minneapolis/Saint Paul metropolitan area
- $237,031 in the balance of the state

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 2,328 loans
- $264,392,643 total loan amount
- $113,571 average loan
- median household income of borrowers was $44,000 or 60 percent of statewide median
- 23 percent were households of color

Staff estimates overall home mortgage production to increase by as much as $26 million from 2013 to 2014. Home mortgage production for 2014 is difficult to predict due to overall market volatility, current high levels of Start Up production, and lender acclimation to the new Step Up and mortgage credit certificate (MCC) first mortgage programs. Start Up production is expected to increase in 2014 with Step Up production remaining stable at current levels. Overall home mortgage loan production is estimated at $470 million in gross commitments, which includes Start Up, Step Up and MCC first mortgage production. Typically, 20 percent of commitments cancel during a year, therefore the total estimated funding for net commitments is $376 million.

Estimating the market demand for Minnesota Housing loan products is a challenge. Uncertain market conditions related to regulatory changes, the increased interest rate environment, recovering home valuation, and the overall employment outlook will affect both need and demand for these products. Staff will continue working to ensure that the home mortgage programs and corresponding DPA programs meet the needs of low- and moderate-income homeowners (80 percent AMI and below), that loan commitments are targeted to emerging market communities, and that Minnesota Housing maintains the quality of the MBS loan portfolio.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to finance loans for an estimated 2,785 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	$376,000,000
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total*	$376,000,000*
2013 Original Total	**$350,000,000**

*The program will be funded at $470 million in gross commitments, which should result in $376 million of net activity, with 20 percent of loan commitments canceling.

Legal Authority: Minn. Stat. §462A.05, Subd. 3; Minn. Stat. §462A.073; Minn. Rules, Parts 4900.3200-3290; IRC §143

Targeted Mortgage Opportunity Program

The Targeted Mortgage Opportunity Program is a new initiative to provide sustainable first mortgage or equivalent financing opportunities to households struggling to access mortgage credit and will target emerging market households (i.e., households of color or Hispanic ethnicity) in Minnesota.

Emerging markets are an increasing share of the state's population. These households are struggling to access the mortgage market, the foreclosure crisis fell disproportionately on them, and their homeownership rate has declined significantly since 2008. As of 2011, Minnesota's homeownership disparity (the homeownership rate differential between White/non-Hispanic households and emerging markets) is the highest in the nation.

Proposal for 2014
The Agency proposes allocating $8 million under the 2014 AHP for a first mortgage loan pool for credit-worthy borrowers struggling to access a mortgage. There will be special marketing for emerging market homebuyers. The loan pool would be marketed through collaborative efforts with organizations that work closely with and/or provide outreach to emerging market populations. As part of this effort, the Agency would work with designated organizations to assure successful homeownership as well as household stability through intensive homeowner and financial literacy training. All loans under the proposed program would be originated by designated, culturally-competent mortgage lenders and serviced by an organization that understands the objective of the program. The Agency anticipates that an estimated 44 loans will be originated under this pool, underwritten pursuant to standards to be developed that likely will be concessionary; as a result, $2 million is requested from Pool 3 to serve as a risk pool to reimburse Pool 2 for any losses that might occur under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$8,000,000
Housing Affordability Fund (Pool 3)	
Regular	$2,000,000
Revolving	
2014 Total	$10,000,000
2013 Original Total	**$0**

- **Legal Authority:** Minn. Stat. § 462A.05, Subd. 3

Mortgage Credit Certificates

As an alternative to allowing excess mortgage revenue bond (MRB) authority to expire, Minnesota Housing converted that authority into Mortgage Credit Certificates (MCCs) for first-time homebuyers. MCCs allow eligible homebuyers to claim a nonrefundable tax credit for a percentage of the annual mortgage interest paid per year by providing a dollar-for-dollar reduction against the homeowner's federal tax liability with a $2,000 cap per year. Eligibility requirements for mortgage revenue bond (MRB) programs, such as first-time homebuyer status, also apply to the MCC program.

Program Performance and Trends
In November 2012, Minnesota Housing converted $135,107,649 of expiring bonding authority to $33,776,912 in MCC authority. MCCs were available through Minnesota Housing starting on June 24, 2013 and will operate through December 31, 2014, or until funds are exhausted.

It is difficult to estimate demand for the MCC Program. While popular with consumers in other states and communities offering MCCs, they are complicated to explain and require lender training and increased need for program promotion. If demand for MCCs exceeds initial estimates, Minnesota Housing will evaluate the efficacy of continuing the program.

Proposal for 2014
Minnesota Housing is budgeting $25.6 million of MCC authority for 2014. Estimated production is 488 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	$25,600,000
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$25,600,000
2013 Original Total*	**$12,500,000**

*Bonding authority is converted to MCC authority. Last year, funding was shown as bonding authority; this year, the table shows MCC authority.

Legal Authority: Minn. Stat. §462A.05; IRC §143, Section 25

Deferred Payment Loans

Minnesota Housing offers three down payment and closing cost loan programs (Deferred Payment Loan, HOME HELP, and Monthly Payment Loan) that support homeowners purchasing under the Start Up or Step Up or first mortgage loans originated incident to the MCC program. Historically, the percentage of Minnesota Housing borrowers using one of the three DPA programs has been significant, ranging from 60 percent to 71 percent of all borrowers.

The Deferred Payment Loan (DPL) provides an interest-free loan for down payment and closing costs for income-eligible first-time homebuyers purchasing a home under the Start Up program. Borrowers that receive DPL assistance lack necessary funds for standard mortgage down payment and closing costs. The maximum loan amount is the lesser of five percent of the home purchase price or $4,500. DLP requires at least one borrower per household to complete homebuyer education. The program serves lower income households than the amortizing Monthly Payment Loan (MPL) and is funded through a combination of state appropriations and Pool 3 funds.

To ensure that funds support successful homeownership, DPL requires borrowers to contribute $1,000 of their own funds to the transaction, maintain adequate funds in reserve accounts to finance emergency funding needs, have a debt-to-income ratio of less than 50 percent and a credit score of at least 640. DPL also requires at least one borrower per household to complete homebuyer education.

Current income limits are adjusted by household size. Limits for households of up to four members are:

Property Location	Maximum
Minneapolis/Saint Paul metro area	$50,000
Rochester	$50,000
Balance of State	$40,000

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 1,418 loans
- $5,756,754 total loan amount
- $4,060 average loan
- median household income of borrowers was $44,000 or 60 percent of statewide median
- 25 percent were households of color

As a result of a number of new program changes implemented in late December 2012 for all home mortgage programs, the maximum allowable loan amount for the DPL decreased to $3,000 and demand for the DPL decreased significantly resulting in unprecedented underutilization of funds. In an effort to continue to target this program to borrowers with traditional income and other mission-oriented borrower characteristics similar to borrowers served under the previous Homeownership Assistance Fund (HAF) program, the maximum loan amount was revised upward in late June 2013 and Minnesota Housing staff expect a corresponding increase in demand for this loan program.

Proposal for 2014

Staff requests a total of $4 million for DPL for the 2014 AHP. Demand for the DPL program is based on home mortgage production estimates that are subject to market volatility; therefore, it is important to view this funding request as conservative. With as many as 70 percent of Minnesota Housing borrowers historically using a down payment and closing cost loan program, if home mortgage demand exceeds estimated production, additional resources may be needed to support this program.

Based on resources available for new activity in 2014, Minnesota Housing expects to fund DPL loans for an estimated 711 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$830,000
Carry Forward of Unobligated Balances from Previous Plans	$828,315
Repayments and Receipts	$1,100,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$1,241,685
Revolving	
2014 Total	$4,000,000
2013 Original Total	**$5,841,209**

Legal Authority: Minn. Stat. §462A.21, Subd. 8; Minn. Rules, Parts 4900.1300-1359

HOME Homeowner Entry Loan Program (HOME HELP)

The HOME Homeowner Entry Loan Program (HOME HELP) provides interest-free, deferred funding to eligible homebuyers for down-payment and closing costs. The program is one of three down-payment assistance loan programs that support first-time homebuyers receiving a Minnesota Housing home mortgage loan under "Start Up". HOME HELP includes a provision to forgive 50 percent of the loan after six years of owner occupancy.

To ensure that HOME HELP funds support successful homeownership, HOME HELP requires borrowers to contribute $1,000 of their own funds to the transaction, maintain adequate funds in reserve accounts to finance emergency funding needs, have a debt-to-income ratio of less than 50 percent and a credit score of at least 640. HOME HELP also requires at least one borrower per household to complete homebuyer education.

Current income limit: 80 percent of county median income, adjusted for family size

Maximum loan amount: $10,000

Program Performance and Trends
For the period of October 1, 2011 – September 30, 2012 Minnesota Housing funded:

- 219 loans
- $2,033,000 total loan amount
- $9,283 average loan
- median household income of borrowers was $39,000 or 53 percent of statewide median
- 40 percent were households of color

Proposal for 2014
The 2014 AHP funding request is slightly lower than the 2013 AHP funding request primarily due to a lower average loan amount in the HOME HELP program resulting from program changes implemented in December 2012.

Staff based the 2014 HOME HELP funding request on estimated Start Up production and share of the overall Minnesota Housing down-payment assistance loan production. While HOME HELP lenders have gained increasing confidence in the federal requirements associated in delivering quality loans under the program, first mortgage (Start Up) production drives HOME HELP production, and Start Up production is subject to market uncertainty. This market uncertainty makes production estimates subject to revision as the year progresses.

Minnesota Housing expects to fund approximately 321 HOME HELP loans in 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$2,485,970
Carry Forward of Unobligated Balances from Previous Plans	$914,030
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$3,400,000
2013 Original Total	**$4,000,000**

Legal Authority: Title II of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. 12701 et. seq.; 24 C.F.R 92

Monthly Payment Loan

Monthly Payment Loans (MPLs) are interest-bearing, amortizing loans that provide down-payment and closing cost funds to support the Agency's home mortgage loan programs, including "Start Up", "Step Up", and the first mortgage loans originated incident to the Mortgage Credit Certificate program. Borrowers who qualify for MPLs may receive up to the greater of $5,000 or five percent of the purchase price of the home. MPLs have a 10-year term and an interest rate equal to that of the first mortgage. Minnesota Housing began offering MPLs in December 2012 and has experienced strong demand for the program.

To ensure that MPL funds support successful homeownership, MPL requires borrowers to contribute $1,000 of their own funds to the transaction, maintain adequate funds in reserve accounts to finance emergency funding needs, have a debt-to-income ratio of less than 50 percent and a credit score of at least 640. MPL also requires at least one borrower per household to complete homebuyer education.

This loan product employs several Agency strategies: improving and adapting products to ensure that they are attractive and easy to use in a changing market, prudently using down-payment and closing cost loans to serve borrowers and support loan production without putting borrowers at unnecessary risk, and expanding the pool of lenders and the services provided to these lenders.

Program Performance and Trends
Funds support Minnesota Housing home mortgage loans and are available to borrowers who meet the guidelines and the program income limits. As this is a new program, there was no activity to report for 2012; however, demand is strong with over 400 loans funded in 2013.

Proposal for 2014
Minnesota Housing expects to fund an estimated 875 MPLs in 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$7,000,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$7,000,000
2013 Original Total	**$5,000,000**

Legal Authority: Minn. Stat. §462A.05

Single Family Interim Lending

Single Family Interim Lending includes the Partnership for Affordable Housing (PAH), funded from Pool 3, and Innovative Housing, funded by the Minnesota Legislature in the late 1970s with funds that have revolved since the initial appropriation. Under this activity, Minnesota Housing provides interim loans to acquire, rehabilitate, demolish or construct owner-occupied housing. Interim loans funded through PAH have a two percent interest rate while loans funded through the Innovative appropriation are interest-free. The loan term is 20 months. Both sources of interim funding are awarded annually through the Single Family Request for Proposals process in accordance with the Agency's mission and funding priorities. Innovative funds are reserved for proposals involving innovative construction techniques.

Program Performance and Trends
Data on interim lending are included in data provided under the Community Homeownership Impact Fund (formerly known as the Community Revitalization Program or CRV). The Impact Fund is the umbrella program under which Minnesota Housing currently delivers the Economic Development and Housing/Challenge Program and interim construction financing, primarily for single family owner-occupied housing.

Proposal for 2014
The decline in use of interim funds coincides directly with the decline in single-family new construction market activity. In 2007, Minnesota Housing awarded nearly $2.7 million in interim financing; since that time, there has been variable demand for the resource, with $660,000 awarded in 2012.

It is difficult to project the demand for interim financing in any given annual funding round because of the flexible nature of the funding source, which allows for rehabilitation as well as new construction activity. This year, the request is greater given the recent rebound in new construction interest. Governor Dayton's new Housing and Jobs Growth Initiative also suggests a greater need for interim construction financing in those parts of the state where employers are poised to expand but there is not enough affordable housing to meet the needs of the local workforce.

Based on resources available for new activity in 2014, Minnesota Housing anticipates making five interim or construction loans to administrators for approximately 19 housing units.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
Revolving	$522,750
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$1,000,000
Revolving	
2014 Total	$1,522,750
2013 Original Total	**$910,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 2 and Minn. Stat. §462A.05, Subd. 18; Minn. Rules, Parts 4900.1200-1210

Habitat for Humanity Initiative

The Habitat for Humanity Initiative provides a secondary market for interest-free loans originated by Habitat for Humanity Minnesota affiliates for qualifying households throughout Minnesota (under its Next 1,000 Homes Fund).

Current income limit: Less than or equal to 50 percent of the greater of state or area median income.

Habitat sets specific borrower income limits, which are lower than Minnesota Housing's limits. Habitat also establishes maximum loan amounts that are lower than Minnesota Housing's home mortgage loan program limits.

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded the following Habitat for Humanity Initiative loans:

- 17 loans
- $1,344,761 total loan amount
- $79,104 average Minnesota Housing funding per household
- median household income of borrowers was $33,000 or 46 percent of statewide median
- 77 percent were households of color

Proposal for 2014

Based on resources available for new activity in 2014, Minnesota Housing expects to fund loans for approximately 24 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$1,000,000
Housing Affordability Fund (Pool 3)	
Regular	$1,000,000
Revolving	
2014 Total	$2,000,000
2013 Original Total	**$2,000,000**

Legal Authority: Minn. Stat. §462A.21, Subd. 5

Homeownership Education, Counseling and Training (HECAT, NFMC, and the MHA Project)

Homeownership Education, Counseling and Training (HECAT) supports: pre-purchase homebuyer training, home equity conversion counseling, and foreclosure prevention counseling. Minnesota Housing and its funding partners (the Minnesota Home Ownership Center and the Greater Minnesota Housing Fund) accept funding proposals from administrators annually through a competitive Request for Proposals process. Minnesota Housing also funds foreclosure prevention counseling with federal funds from the National Foreclosure Mitigation and Counseling (NFMC) program and the Making Home Affordable Outreach and Intake Project (MHA Project). Current funding from NFMC and the MHA Project will run through December 2013.

Current income limit: none, but participants with incomes less than or equal to 60 percent of area median are encouraged to participate.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

- 14,931 households
- $3,644,735 funding amount
- $244 average Minnesota Housing assistance per household
- median household income of participants was $34,000 or 46 percent of statewide median
- 29 percent were households of color

This is an ongoing program with experienced subgrantees delivering statewide services. Staff does not anticipate any problems with fully committing and expending funds for these activities that directly support Minnesota Housing's mission and strategic priorities.

A review of mortgage delinquency and foreclosure in Minnesota shows that rates are still high compared to historic trends. Although many troubled loans remain in the system, rates have declined from the highs of 2009 – 2011 and need, especially for foreclosure counseling, is diminishing.

Proposal for 2014
The 2014 HECAT budget is slightly less than the previous year's budget. Some difference can be attributable to varying repayments from Foreclosure Prevention Assistance Program loans and any modest carryover from undisbursed funds based on lower than estimated subgrantee client service levels.

Based on resources available for new activity in 2014, Minnesota Housing expects to fund assistance for approximately 12,400 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$791,000
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	$25,000
Contributions from Other Organizations	$500,000
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$1,316,000
2013 Original Total	**$1,555,750**

Legal Authority: Minn. Stat. §462A.209

Enhanced Financial Capacity Initiative

The Enhanced Financial Capacity Initiative is a new initiative targeted to emerging market households (i.e., households of color or Hispanic ethnicity) to increase their probability of successful homeownership in Minnesota.

Emerging markets are an increasing share of the state's population. These households are struggling to access the mortgage market, the foreclosure crisis fell disproportionately on them, and their homeownership rate has actually declined significantly since 2008. As of 2011, Minnesota's homeownership disparity (the homeownership rate differential between White/non-Hispanic and emerging markets households) is the highest in the nation.

One strategy for increasing sustainable homeownership opportunities for low and moderate income Minnesotans has been comprehensive homeowner training. Minnesota's statewide homeowner training infrastructure, the "homeownership advisors network", has been developed by the Minnesota Homeownership Center with strong programming and financial support from Minnesota Housing.

New approaches to serving potential emerging market homeowners include supplementing traditional homeowner training with intensive financial literacy and providing case management services to enhance family stability and sustainable homeownership. There are both national and local models for such activities, and this initiative hopes to pilot and expand such models.

Program Performance and Trends
Minnesota Housing staff proposed this initiative to support new and expanded homeowner training efforts through existing organizations. Clients that wish to stabilize or improve their homeownership opportunities through participation in this initiative may be referred from a variety of sources. This effort will be linked with the Targeted Mortgage Opportunity Program.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing anticipates serving 167 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$500,000
Revolving	
2014 Total	$500,000
2013 Original Total	**$0**

Legal Authority: Minn. Stat. §462A.209

Home Improvement Loan Program

Minnesota Housing's home improvement loan program provides below-market-interest-rate, fully-amortizing home improvement loans to low- and moderate-income homeowners to improve the livability and energy efficiency of their homes. The home improvement loan program is key to the Agency's priority to support successful homeownership.

A thorough product review of Minnesota Housing's home improvement loan program was identified as an important business activity during the development of the 2012 AHP. The product review resulted in several changes to make the program more attractive in the current market. Changes to the program in 2013 included:

- The reintroduction of unsecured loans to respond to the housing needs of underwater homeowners;
- Increasing lender fees and paying those fees out of Pool 3 as a way to offset increased lender costs, incent broader lender participation, and to not negatively impact program yield and address APR issues;
- Increasing the maximum loan amount (secured loan option to $50,000; unsecured loan option to $15,000; energy loan option to $15,000); and,
- Eliminating the income limit for energy and accessibility loan options.

Current income limit: $96,500

Maximum loan amount: $50,000 for secured loans; $15,000 for unsecured loans

Program Performance and Trends
In recent years, home improvement loan activity has declined due to difficult economic conditions and the availability of a number of other home improvement products. Recent program changes have not resulted in an immediate increase in overall production, but there has been a dramatic shift toward unsecured loans as well as energy incentive loans.

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 634 loans
- $10,492,222 total loan amount
- $16,549 average loan
- median household income of borrowers was $61,000 or 83 percent of statewide median
- 8 percent were households of color

Proposal for 2014
Funding for the 2014 AHP includes $500,000 of Pool 3 funds for a Targeted Home Improvement Interest Write-Down Initiative to provide home improvement loans to help households with incomes less than 80 percent of area median income and in communities with lower-income residents and older housing stock.

This funding request is less than in 2013 due to sluggish activity in the overall home improvement market. The challenge for this AHP year will be to successfully market the revised program to lenders and consumers statewide. Minnesota Housing has designed program changes to increase the appeal and functionality of its home improvement loan program.

Based on resources available for new activity in 2014, Minnesota Housing expects to finance loans for an estimated 838 households under this program including 200 households under the Targeted Home Improvement Interest Write-Down Initiative.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$13,500,000
Housing Affordability Fund (Pool 3)	
Regular	$830,000
Revolving	
2014 Total	$14,330,000
2013 Original Total	**$20,465,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 15; Minn. Rules, Parts 4900.0610-0700

Rehabilitation Loan Program (RLP)

The Rehabilitation Loan Program (RLP) provides deferred loan financing to low-income homeowners needing to rehabilitate their existing housing to improve its safety, livability or energy efficiency. Existing residential housing is rehabilitated to the greatest extent practicable to meet a rehabilitation standard adopted by the Agency in 2010. Homeowners needing assistance of an emergency nature or having an essential accessibility need are referred to the Emergency & Accessibility Loan (ELP) component of the program. RLP is a key component of the Agency priority to support successful homeownership. Local entities, such as community action agencies, administer the program.

The maximum RLP loan term is 15 years for properties taxed as real property and 10 years for manufactured homes taxed as personal property and located in a mobile home park. All loans are forgiven after the loan term if the borrower does not sell, transfer title, or cease to occupy the property during the loan term.

2013 income limits are adjusted by household size: $22,250 for a 3-person household

Maximum loan amount: $27,000

Program Performance and Trends
The funding source for RLP has varied over the past several AHPs. RLP was funded with state appropriations during and prior to the 2008-09 AHP. The 2010-11 AHP switched the funding source to federal HOME funds. As part of the 2012 AHP, Minnesota Housing changed the funding source back to state appropriations with the goal of enhancing lenders' ability to provide funding to low-income homeowners by the making the program easier for lenders, more flexible for homeowners, and more efficient for Minnesota Housing to administer. The 2013 AHP was the first full year of production under state appropriations. This funding source change has had its desired effect as production sky-rocketed and RLP funds were depleted six months into the state fiscal year.

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

- 211 loans
- $4,400,068 total loan amount
- $20,853 average loan
- median household income of borrowers was $14,000 or 19 percent of statewide median
- 11 percent were households of color

Proposal for 2014
A continued challenge for the upcoming year is to maintain lender capacity. Lender staff turnover and staff reduction have increased significantly over the last year due to budget cuts. RLP program staff are exploring ways to target rehabilitation to better address the need for safety, livability, accessibility, and energy conservation repairs.

The program request for this 2014 AHP is to maintain the current funding level and to prioritize the disaster fund rollover to households affected by the flood in Northeastern Minnesota.

Based on resources available for 2014, Minnesota Housing expects to fund rehabilitation loans for an estimated 293 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$2,772,000
Carry Forward of Unobligated Balances from Previous Plans	$1,072,171
Repayments and Receipts	$750,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$2,005,829
Revolving	
2014 Total	$6,600,000
2013 Original Total	**$5,750,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 14a; Minn. Rules, Parts 4900.0610-0700

Amortizing First Mortgages

Multifamily has the ability to finance and insure amortizing first mortgages. Traditionally, Minnesota Housing has made direct loans through its Low and Moderate Income Rental Program (LMIR) using either Pool 2 resources or proceeds from the issuance of tax exempt bonds (in combination with HUD's Risk Sharing Program). Direct loans will now be made under LMIR in combination with HUD's Risk Sharing Program. In addition, loans will be originated under HUD's Multifamily Accelerated Processing (MAP) program, which allows the Agency to access the secondary market and securitize loans. MAP is a new product line being implemented under the 2014 AHP.

LMIR

The Low and Moderate Income Rental Program (LMIR) makes interest-bearing, amortizing first mortgages available for the refinance, acquisition, rehabilitation or new construction/conversion of rental developments that house low- and moderate-income Minnesotans. Minnesota Housing also may finance bridge loans and equity take-out loans under this program. Financing is available to housing sponsors both through the Request for Proposals process and on an open pipeline basis. In addition to HUD Risk Share insurance, deferred loans under the Flexible Financing for Capital Costs program are available in conjunction with LMIR loans.

Current eligibility requirements: 40 percent of units must be affordable to households with incomes at 60 percent of the area median income or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and 25 percent of units may be unrestricted. The balance of the units may be affordable to households with incomes up to 100 percent of the area median income.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible with loan amounts less than $2 million on tax-exempt bond loans and $350,000 on all others.

MAP

The HUD Multifamily Accelerated Processing (MAP) program provides mortgage insurance through the Federal Housing Administration to facilitate the new construction, rehabilitation, acquisition, and refinance of multifamily rental housing. Loans are fully amortizing, interest bearing and non-recourse to borrowers with standard carve outs. Loans will be funded by a third party lender and securitized into Ginnie Mae Mortgage Backed Securities pools. These loans may be paired with other Minnesota Housing loan programs.

Eligibility Requirements: The development project must meet the underwriting standards as prescribed by HUD, including loan-to-value requirements and debt service coverage ratio. The development team must also meet the HUD requirements regarding experience and financial strength.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible in amounts of less than $1 million.

Program Performance and Trends

For the period of October 1, 2011 – September 30, 2012, under LMIR Minnesota Housing financed:

- 12 loans for developments with 776 units

- $27,347,435 total loan amount
- $38,242 average LMIR assistance per unit
- median household income of tenants was $18,000 or 25 percent of statewide median
- 42 percent of households were of color

MAPS is new to Minnesota Housing; there is no activity to report for the period of October 1, 2011 – September 30, 2012.

Proposal for 2014
Due to availability of competitive financing opportunities from other sources, staff requested a smaller LMIR allocation for this AHP. Of the $40 million for LMIR, $10 million will be for bridge loans and $30 million will be for permanent financing. In addition, there will be $10 million of MAP funding..

Based on resources available for new activity in 2014, Minnesota Housing expects to assist 1,533 units, including an estimated 1,150 units under LMIR and an estimated 383 units under MAPS (e.g., excluding bridge loans).

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	$40,000,000
Housing Investment Fund (Pool 2)	$10,000,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$50,000,000
2013 Original Total	**$90,000,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 3

Flexible Financing for Capital Costs (FFCC)

The Flexible Financing for Capital Costs (FFCC) program provides deferred loans at low or no interest to support the production, stabilization, and maintenance of multifamily rental housing. Funds are provided only in conjunction with Low and Moderate Income Rental (LMIR) or other Agency-originated first mortgage loans for the refinance, acquisition, rehabilitation or new construction/conversion of rental developments that house low- and moderate-income Minnesotans.

The current FFCC program is administered both through the Consolidated Request for Proposals process and on a pipeline basis, allowing the Agency to act more quickly to meet the immediate needs of developments that would be unnecessarily delayed and subjected to hardship if required to wait for the next RFP.

Current eligibility requirements: 40 percent of units must be affordable to households with incomes at 60 percent or the area median income or 20 percent of units must be affordable to households with incomes at 50 percent area median income; and 25 percent of units may be unrestricted. The balance of the units may be affordable to households with incomes up to 100 percent of the area median income.

Maximum loan amount: no set limit, subject to funding availability

Program Performance and Trends
For the period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 2 FFCC loans for developments with 105 units
- $494,983 total loan amount
- $4,714 average FFCC assistance per unit

As a result of the state's aging portfolio, the Agency anticipates a continued increase of preservation and stabilization requests.

Proposal for 2014
Staff requested FFCC resources to address the preservation and stabilization of developments as well as the refinancing of existing loans. Based on resources available for new activity in 2014, Minnesota Housing expects to fund an estimated 274 units under FFCC.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$4,500,000
Revolving	
2014 Total	$4,500,000
2013 Original Total	**$4,000,000**

Legal Authority: Minn. Stat. §462A.05, Subd.3, and - Minn. Stat. §462A.21, Subd.8a.

Low-Income Housing Tax Credits (LIHTC)

Low-Income Housing Tax Credits (LIHTC) provide federal income tax credit to owners and investors in the construction or acquisition with substantial rehabilitation of eligible rental housing. Housing must meet income and rent restrictions for a minimum of 30 years. The allocation of tax credits is based upon the state's population and a per capita amount that increases each year with the cost of living. Syndication proceeds are the amounts of private equity invested in developments as a result of federal housing tax credits awarded and then sold to investors.

Minnesota Housing was designated by the Minnesota Legislature as the primary allocating Agency of LIHTC in Minnesota. Qualified local cities and counties have also been designated by the Legislature as suballocators of the HTC.

Minnesota Housing awards tax credits in two rounds of a competitive allocation process held each year. Round 1 is held concurrent with the Minnesota Housing Consolidated Request for Proposals and a smaller Round 2 occurs later. A waiting list is established at the conclusion of Round 2. The award of LIHTC's is highly competitive process with requests totaling 3:1 or 4:1 for each available credit dollar.

Section 42 of the Internal Revenue Code requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. Minnesota Housing's Qualified Allocation Plan (QAP) combines state and federally legislated priorities with other priorities established by Minnesota Housing following receipt of comments from the public, local municipalities and federal agencies. The QAP sets forth selection criteria that are appropriate to local conditions and support the Agency's mission and strategic priorities.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012:

- 1,140 LIHTC units in 20 developments
- $67,029,941 in syndication proceeds
- $58,798 average syndication amount per unit
- median household income of tenants in LIHTC units financed by Minnesota Housing was $18,000 or 24 percent of statewide median
- 44 percent were households of color

Proposal for 2014
Based on the available LIHTC credit ceiling, Minnesota Housing expects to allocate tax credits for an estimated 651 units in 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$8,193,000
Carry Forward of Unobligated Balances from Previous Plans	$8,743
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$8,201,743
2013 Original Total	**$8,043,053**

Legal Authority: Minn. Stat. §462A.221-225; IRC §42

Affordable Rental Preservation (PARIF and HOME HARP)

Affordable Rental Preservation includes activity funded under the Affordable Rental Investment Fund – Preservation (PARIF) and HOME Affordable Rental Preservation (HOME HARP) programs. Minnesota Housing provides deferred loans throughout the state under this activity to help cover the costs of preserving permanent affordable rental housing that have long-term, project-based federal subsidies or supportive housing units. PARIF and HOME HARP funding may be used for acquisition, rehabilitation, and debt restructuring, and in the case of at-risk federally assisted developments, equity take-out.

Tenant income limit: PARIF is subject to federal guidelines of assistance being preserved. Income limits under HOME HARP are set annually by the U.S. Department of Housing and Urban Development (HUD).

Maximum assistance amount: None

Program Performance and Trends
PARIF funds were under-committed in the 2013 AHP primarily due to the unanticipated allocation of $30 million of Housing Infrastructure Bond proceeds and the Agency's priority to meet federal commitment requirements for HOME HARP. Expectations to commit HOME HARP funds continue; however, without a current HIB allocation, demand for PARIF should increase under the 2014 AHP.

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded preservation under these two programs:

PARIF
- 5 loans for 192 units
- $2,031,197 total loan amount
- $10,579 average PARIF assistance per unit
- median household income of tenants was $12,000 or 16 percent of statewide median
- 57 percent were households of color

HOME HARP
- 1 developments with 90 units
- $2,895,000 total loan amount
- $32,167 average HOME assistance per unit
- No demographic data available

These programs continue to be critical tools in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based federally assisted housing.

As of July 2013, Minnesota Housing estimates that every dollar of deferred loan investment leverages seven dollars in federal project-based rental subsidies over the term of the investment, which is generally thirty years.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to fund an estimated 1,340 units under this program, including 848 units under PARIF and 492 units under HOME HARP; however, estimating HOME HARP usage and projecting unit counts is complicated by the program's lack of data on historic trends.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$2,844,031
Carry Forward of Unobligated Balances from Previous Plans	$4,536,838
State Appropriations	
New Appropriations	$4,218,000
Carry Forward of Unobligated Balances from Previous Plans	$8,254,070
Repayments and Receipts	$250,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$20,102,939
2013 Original Total	**$25,315,849**

Legal Authority: Minn. Stat. §462A.21, Subd. 8b and 14a; Minn. Stat. §462A.05, Subd. 3b; Laws of Minnesota 2009, Chap. 17, Art. 1, Sec. 6; Minn. Rules, Parts 4900.3500-3550, 2700-2707, 4900.0610-0700 and Title 11 of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. §12701 et seq; 24 CFR Part 92

Housing Trust Fund – Capital

Historically, funding for the Housing Trust Fund (HTF) has come from either state appropriations or bond proceeds. Capital assistance is in the form of deferred loans at no or low interest for the acquisition, construction, or rehabilitation of affordable permanent supportive housing. Funding priority is given to housing proposals that serve tenants with incomes at 30 percent of the median family income for the Minneapolis/Saint Paul metropolitan area. Priority also is given to proposals serving households experiencing long-term homelessness.

Current tenant income limit: 60 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median income with priority for proposals serving households at 30 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median income.

Maximum loan amount: none beyond funding availability

Program Performance and Trends
From October 1, 2011 – September 30, 2012 Minnesota Housing funded these capital expenses:

- three loans for developments with 146 units
- $1,887,802 loan amount
- $12,930 average HTF per unit
- median household income of all HTF tenants was $8,000 or 11 percent of statewide median
- 42 percent of all HTF tenants were households of color

Proposal for 2014
For the past two years, Minnesota Housing has used nearly 100 percent of regular HTF resources to sustain the Agency's rental assistance commitments. In the 2013 AHP, Minnesota Housing used Housing Infrastructure Bond (HIB) proceeds to provide forgivable loans to supportive housing developments under the applicable HTF statute, rules, and guidelines.

Minnesota Housing did not receive a new allocation of HIBs from the 2013 Minnesota Legislature.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	$0
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$0
2013 Original Total	**$12,000,000**

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Publicly Owned Housing Program (POHP)

The Publicly Owned Housing Program (POHP) provides deferred, forgivable loans at no interest to eligible public entities to preserve/rehabilitate properties built under the U.S. Department of Housing and Urban Development's Public Housing program that are owned and operated by local housing authorities. In the past, legislation has also authorized the acquisition, construction, or rehabilitation of publicly owned permanent supportive or transitional rental housing. Funds are from the proceeds of state general obligation (GO) bonds and can be used only for eligible capital costs of a non-recurring nature that add value or life to the buildings. There currently is no appropriation to this program.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- two loans for 316 units
- $418,000 total loan amount
- $2,247 average POHP assistance per unit
- median household income of tenants was $7,000 or nine percent of statewide median
- 21 percent were households of color

Proposal for 2014
Based on funding carried forward from the 2013 AHP, the Agency expects to fund an estimated 13 units of rehabilitation with uncommitted funds from the previous bonding bill.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	$58,281
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$58,281
2013 Original Total	**$5,567,979**

Legal Authority: Minn. Stat. §462A.202; Minn. Rules, Parts 4900.3100-3130

Rental Rehabilitation Deferred Loan Pilot Program (RRDL)

Minnesota Housing launched the Rental Rehabilitation Deferred Loan (RRDL) Pilot Program in October of 2011. The RRDL Pilot Program provides deferred, no interest loans to individuals, developers, non-profits, units of government, and tribal housing corporations for the moderate rehabilitation of existing affordable rental housing throughout Greater Minnesota. Up to 25 percent of the loan may be forgiven at the end of the full compliance period. The program is intended to serve owners of smaller federal assisted and non-assisted properties that do not apply through Minnesota Housing's competitive Request for Proposals process. RRDL gives preference to projects and programs serving areas that are not HOME entitlement areas.

Loans are accessible through a local administrative network, and larger developments may apply directly to Minnesota Housing for assistance. RRDL provides rehabilitation resources to both larger properties (12-60 units) through a Specific Project application process and smaller to medium properties (1-36 units) through a local administrative network.

Current tenant income limit: 80 percent of statewide or area median income (not adjusted for family size)

Maximum loan amount: $35,000 per unit for 1-2 units or $25,000 per unit up to a maximum loan of $300,000

Program Performance and Trends

From October 1, 2011 – September 30, 2012, the program's first year, Minnesota Housing allocated funds to administrators and developments, but no loans closed. In the initial allocation, RRDL was most effective in assisting applications for larger naturally affordable or publicly subsidized properties with up to 60 units. Smaller properties are typically privately owned by an individual or sole proprietorship, which presents many barriers to accessing RRDL funding.

In May 2013, the Minnesota Housing Board approved a variety of modifications to the program for individual or sole proprietorship, including revised underwriting standards and submission requirements. As a result, the program has experienced moderate success in attracting owners of smaller rental properties.

As of June 30, 2013, Minnesota Housing had financed:

- 5 loans (148 units) for a $1,392,409 total loan amount
- $9,408 average assistance per unit

As of June 30, 2013, administrators:

- made commitments for 10 loans (191 units) in the total loan amount of $2,176,725
- began processing 50 projects (327 units) for an additional $4,938,760 in program funding, an average of $15,103 per unit

Proposal for 2014

Based on resources available and current production trends, Minnesota Housing expects to finance an estimated 209 units in 2014 under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$3,138,000
Carry Forward of Unobligated Balances from Previous Plans	$0
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$3,138,000
2013 Original Total	**$1,520,176**

Legal Authority: Minn. Stat. §462A.05 sub.14 and §462A.33; Minn. Rules, Parts 4900.3600-3652

Section 8 – Performance Based Contract Administration (PBCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing & Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the actual fair market rent of assisted units.

Effective August 1, 2000 the Agency entered into an agreement with the U.S. Department of Housing and Urban Development (HUD) to administer existing Section 8 contracts for affordable rental units that are not part of the Agency's first mortgage portfolio. The Agency's primary responsibilities under Section 8 Performance Based Contract Administration (PBCA) are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist the Agency in identifying and planning for the preservation needs of developments with Section 8 assistance.

The contract with HUD to administer these Section 8 contracts was rebid in 2011, and Minnesota Housing was awarded the new contract, which extends from October 1, 2011 through September 30, 2013. Minnesota Housing currently administers 359 PBCA contracts for Section 8 units. PBCA revenue earned pays 100 percent of the cost of administering the program.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012 Minnesota reported:

- 18,894 household assisted
- $110,265,196 Housing Assistance Payments (HAP) amount
- $5,836 average assistance per household
- median household income of tenants was $11,000 or 15 percent of statewide median
- 37 percent were households of color

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and Traditional Contract Administration (TCA). Nearly one-third of PBCA units are located in the cities of Minneapolis and Saint Paul; an estimated 16 percent of TCA units are located in the cities of Minneapolis and Saint Paul.

Proposal for 2014
Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because PBCA HAP outlays are based in part on the number of assisted units in the portfolio, HAP outlays will increase as the portfolio increases.

Because these funds are based on owner billings for subsidy for specific tenants, and are not discretionary or competitively awarded, the Agency will pass the funds through to these owners as HUD provides funding.

Minnesota Housing expects to assist an estimated 18,833 units in 2014 under PBCA.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$113,000,000
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$113,000,000
2013 Original Total	**$107,100,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

Section 8 – Traditional Contract Administration (TCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing & Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the actual fair market rent of assisted units. Minnesota Housing provided permanent mortgage financing for Section 8 Traditional Contract Administration (TCA) developments from 1975 to the mid-1980s.

Minnesota Housing currently administers 193 contracts for Section 8 units in Agency-financed rental developments. The Agency's primary responsibilities under Section 8 TCA are: performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist the Agency in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012 Minnesota reported:

- 11,582 household assisted
- $71,317,018 Housing Assistance Payments (HAP) amount
- $6,158 average assistance per household
- median household income of tenants was $12,000 or 16 percent of statewide median
- 25 percent were households of color

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between Traditional Contract Administration (TCA - Minnesota Housing-financed Section 8) and Performance Based Contract Administration (PBCA – other Section 8). An estimated 33 percent of PBCA units are located in the cities of Minneapolis and Saint Paul; an estimated 16 percent of TCA units are located in the center cities.

Proposal for 2014
Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because these funds are based on owner billings for subsidy for specific tenants, and are not discretionary or competitively awarded, the Agency will pass the funds through to these owners as HUD provides funding.

Minnesota Housing expects to assist an estimated 11,667 units in 2014 under TCA.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$70,000,000
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2013 Total	$70,000,000
2012 Original Total	**$71,115,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

Section 236

The Section 236 program, which was used to fund low-income rental housing in the late 1960s and early 1970s, is an interest rate reduction program. The U.S. Department of Housing & Urban Development (HUD) subsidizes the interest rate on mortgages to a rate of one percent in order to reduce rents and keep the housing more affordable. The Section 236 program was a predecessor to the Section 8 program.

Program Performance and Trends

Under the Section 236 program, Minnesota Housing currently passes through interest rate reduction payments to developments that include more than 500 units of affordable housing financed by Minnesota Housing. Residents have household incomes at or below 80 percent of median income adjusted for family size.

Proposal for 2014

The program is long standing and well established and no changes are proposed or anticipated. The amount of funds in this program will continue to trend downward as the original mortgages mature.

Minnesota Housing expects to provide interest rate reduction to an estimated 985 units in 2014 under Section 236.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$890,970
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$890,970
2013 Original Total	**$1,625,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 12 U.S.C. §1715z-1 (Housing and Urban Development Act of 1968)

Housing Trust Fund (HTF Non - Capital)

Historically, funding for the HTF has come from state appropriations and been used to fund capital, rental assistance and operating subsidy expenses. In recent years, HTF resources have been used primarily to sustain the Agency's rental assistance commitments. HTF rental assistance funds serve low-income families and individuals who are near-homeless, homeless, and/or long-term homeless.

Current tenant income limit: 60 percent of the Minneapolis/Saint Paul Metropolitan Statistical Area median income (AMI), with priority for proposals at 30 percent of AMI and proposals to serve the long-term homeless.

Maximum loan amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

HTF Rental Assistance

- 1,756 households assisted
- $8,220,694 assistance amount
- $6,688 average assistance per household
- median household income of tenants was $8,000 or 11 percent of statewide median
- 64 percent were households of color

HTF Operating Subsidy

- three grants for developments with 71 units
- $99,500 average grant amount
- $1,401 average assistance per unit

Proposal for 2014
The FY14-15 State of Minnesota budget includes additional Housing Trust Fund resources of $3 million for one-time, short-term rental assistance initiatives for highly mobile students and ex-offenders, as well as a $1.4 million increase to the base budget for the Housing Trust Fund. Of the $1.4 million, $700,000 will be allocated under the 2014 AHP. The remaining $700,000 will be allocated under the next AHP.

Based on resources available in 2014, Minnesota Housing expects to fund an estimated 2,383 households or units under this program. Under the 2013 AHP, the Agency entered into two-year contracts for rent assistance and operating subsidies. As shown in the table, a portion of the two-year contracts will cover 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$700,000
Carry Forward of Unobligated Balances from Previous Plans	$3,135,134
Repayments and Receipts	$100,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
Funding for New Contracts	$3,935,134
Adj. to spread two-year contracts over two years	$10,472,239
2014 Total Program Activity	$14,407,373
2013 Original Total	**$10,588,219**

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Ending Long-Term Homelessness Initiative Fund (ELHIF)

The Ending Long-Term Homelessness Initiative Fund (ELHIF), operating under the Housing Trust Fund statute and program rules, has been used for capital funding, rental assistance, operating subsidy expenses and non-bondable development costs in general-obligation, bond-funded, supportive housing projects.

ELHIF-assisted tenants meet the definition of long-term homelessness: lacking a permanent place to live continuously for a year or more or at least four times in the last three years.

Current tenant income limit: 60 percent of the Minneapolis/Saint Paul Metropolitan Statistical Area median income (AMI), with priority for proposals at 30 percent of AMI.

Maximum assistance amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

ELHIF Capital Funding

- three loans for developments with 145 units assisted
- $2,678,909 total assistance amount
- $18,475 average assistance per unit
- median household income of tenants was $12,000 or 16 percent of statewide median
- 68 percent were households of color

ELHIF Operating Subsidy

- 10 units
- $55,031 total grant amount
- $5,503 average assistance per unit

Minnesota has nearly achieved the goal of funding 4,000 housing opportunities for persons experiencing long-term homelessness by the end of 2015. As of December 31, 2012, the Plan had funded 3,981 new opportunities with a variety of resources, including ELHIF.

As resources have become more scarce, Minnesota Housing has prioritized the use of ELHIF funds to sustain its ongoing commitment to rental assistance and operating subsidy activities.

Proposal for 2014
In the past, Minnesota Housing has prioritized the use of ELHIF funds to sustain its ongoing commitment to rental assistance and operating subsidy activities. In 2014, the Agency will use $1.7 million of ELHIF for straggling one-year contracts, which will be funded for one year to bring them into sync with the Agency's two-year contracts.

Under the 2013 AHP, the Agency entered into two-year contracts for its rent assistance and operating subsidies. As shown in the following table, a portion of the 2013 two-year contracts will cover 2014.

Based on resources available in 2014, Minnesota Housing expects to provide operating subsidies for approximately 834 units under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular - New	$705,404
Regular – Carry Forward	$1,013,596
Revolving	
Funding for New Contracts	$1,719,000
Adj. to spread two-year contracts over two years	$1,701,271
2014 Total Program Activity	$3,420,271
2013 Original Total	**$3,364,781**

Legal Authority: This fund operates under the Housing Trust Fund Rules. Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Bridges

Bridges is a tenant-based voucher program that operates in selected counties throughout the state, administered by local housing organizations. Grants provide temporary rental assistance and security deposits on behalf of participants with a serious mental illness. Payments are paid directly to landlords and tenants are responsible for their portion of the rent, equal to 30 percent of their income. Participants are required to be on a waiting list or eligible for a permanent rent subsidy, typically a Section 8 Housing Choice Voucher. The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of the program.

Current tenant income limit: 50 percent of area median income

Maximum assistance amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

- 611 households
- $2,194,184 assistance amount
- $5,399 average assistance per household
- median household income of tenants was $9,000 or 13 percent of statewide median
- 31 percent were households of color

Proposal for 2014
Under the 2013 AHP, Minnesota Housing entered into two-year contracts for Bridges. As shown in the following table, a portion of the 2013 two-year contracts will cover 2014.

In addition, Minnesota Housing will enter into $400,000 of additional contracts to supplement the 2013 contracts.

Based on resources available in 2014, Minnesota Housing expects to assist an estimated 662 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$400,000
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
Funding for New Contracts	$400,000
Adj. to spread two-year contracts over two years	$2,711,500
2014 Total Program Activity	$3,111,500
2013 Original Total	**$3,513,771**

Legal Authority: Minn. Stat. §462A.2097; Minn. Rules, Parts 4900.3000-3050

Section 811 Demonstration

This new federal demonstration program provides project-based rental assistance to participating states for the development of integrated, cost-effective supportive housing units. The pilot program will structure state level partnerships that link housing and community-based services. The goals of the demonstration are to:

- Increase housing opportunities for people with disabilities;
- Transition people with disabilities from institutions to community-based settings;
- Reduce public costs of homelessness and institutional care;
- Create a centralized outreach and referral system; and
- Develop new service linkages.

Minnesota Housing will implement this demonstration in partnership with the Minnesota Department of Human Services (DHS). DHS will recruit and coordinate referrals for eligible households and provide service linkages.

The demonstration will be a key tool with which to support the goals of the Olmstead Plan to provide integrated housing options for people with disabilities. It is a unique opportunity to expand supportive housing for people with disabilities through the leveraging of Medicaid resources for services in supportive housing.

Program Performance and Trends
This activity is new in 2014.

Proposal for 2014
Minnesota Housing was awarded funding for 95 units of project-based rent assistance and will issue a Request for Proposals from which the state will select approximately 10 - 12 developments in 2014. Staff expect to achieve approximately 30 percent utilization during the 2014 AHP, assisting an estimated 28 units.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$80,000
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$80,000
2013 Original Total	**$0**

Legal Authority: 462A.05, subds. 6, 11, and 12; 462A.06, subd. 6

Family Homeless Prevention and Assistance Program (FHPAP)

The Family Homeless Prevention and Assistance Program (FHPAP) assists families with children, unaccompanied youth, and single adults who are homeless or are at imminent risk of homelessness. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters, eliminating repeat episodes of homelessness, and assisting individuals and families experiencing homelessness to secure permanent affordable housing. The program assists extremely low-income people at a low assistance amount per household, primarily through short-term tenant-based assistance (limited to 24 months and most typically less than three months).

Grant funds are awarded through a competitive application process. In the Minneapolis/Saint Paul seven-county area, only counties are eligible to apply for funding. In Greater Minnesota, eligible applicants include counties, groups of contiguous counties jointly acting together, or community-based nonprofit organizations with a sponsoring resolution from each of the county boards of the counties located within their operating jurisdiction. FHPAP grants encourage and support innovations at the county, region, or local level to work toward a seamless and comprehensive homelessness response system.

All grantees are required to use Minnesota's Homeless Management Information System (HMIS) to collect household data and complete program reports to be submitted to Minnesota Housing. Data collected through the Homeless Management Information System (HMIS) indicate that less than five percent of assisted household returned to shelter within six months of exiting this program.

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing reported:

- 7,785 households
- $5,953,081 funding amount
- $765 per household average assistance amount
- median household income was $9,000 or 12 percent of statewide median
- 57 percent were households of color

FHPAP grantees have implemented a variety of homeless prevention and stabilization activities including rent or mortgage assistance, utility assistance, and an array of support services to assist people to stay in their homes or secure housing. As of the end of 2012, 47 percent of funds allocated to providers were used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 45 percent of funds were used for support services; and 8 percent of funds were used for program administration.

Proposal for 2014

Based on resources available for new activity in 2014, this program is expected to assist an estimated 9,828 households during the year.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$0
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
Funding for New Contracts	$0
Adj. to spread two-year contracts over year years	$7,862,000
2014 Total Program Activity	$7,862,000
2013 Original Total	**$7,465,000**

Legal Authority: Minn. Stat. §462A.204

Housing Opportunities for Persons with AIDS (HOPWA)

The Housing Opportunities for Persons with AIDS (HOPWA) program funds grants for housing assistance and services to meet the housing needs of persons with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status, or related diseases and their families. The U.S. Department of Housing and Urban Development allocates HOPWA funds to local jurisdictions. The City of Minneapolis receives and administers a direct grant for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. Minnesota Housing receives a direct award for the portion of the state not covered by the City of Minneapolis grant and contracts with the Minnesota AIDS Project to administer these funds.

Current tenant income limit: 80 percent of area median income adjusted for family size

Maximum assistance amount: none beyond funding availability

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing assisted:

- 153 households
- $126,808 assistance amount
- $829 average assistance per household
- median household income was $16,000 or 21 percent of statewide median
- 44 percent were households of color

Proposal for 2014

There are no proposed changes to how the program will operate. Based on resources available for new activity in 2014, Minnesota Housing expects to assist an estimated 149 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$139,245
Carry Forward of Unobligated Balances from Previous Plans	$0
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$139,245
2013 Original Total	**$142,672**

Legal Authority: Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12901-12921; 24 C.F.R. Part 574

Asset Management

Asset Management finances interest and non-interest bearing amortizing and deferred loans as well as rent subsidy grants. Developments may be eligible for funding from this account if reserves are inadequate to fund capital improvements. Loans provide funding necessary for repairs and maintenance to protect properties in the Agency's loan portfolio and ensure that developments are decent, safe and sanitary.

Owners receiving assistance with these funds must agree to extend/renew the Section 8 Housing Assistance Payment Contract or accept similar project-based replacement benefits for a minimum of ten years beyond the current commitment to the program.

Minnesota Housing also may use these funds to pay for costs incurred when a property goes into default and eventually becomes Real Estate Owned (REO) by the Agency. Holding costs such as legal representation for the Agency, taxes and insurance, other operating costs, capital improvements necessary to market the property, and loan losses are paid with resources allocated to this program. The funds also are used to stabilize troubled developments that, had they become REO, would have cost the Agency more in losses than the total cost of stabilizing them.

Program Performance and Trends

For the period of October 1, 2011 – September 30, 2012, the Agency funded:

- two loans to assist 198 units
- $1,312,341 total loan amount
- average loan of $656,171
- average $6,628 assistance per unit

Minnesota Housing provided limited funding under Asset Management during the 2013 AHP period, as guidelines and processes for the deployment of the program were not clearly established. Clarified guidelines suggest greater activity during the 2014 AHP. Staff will identify target properties and market the availability of this resource to ensure its full utilization in the preservation of existing properties.

Proposal for 2014

Based on resources available for new activity in 2014, Minnesota Housing expects to fund 200 units.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$3,000,000
Revolving	
2014 Total	$3,000,000
2013 Original Total	**$3,100,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 3

Asset Management Financing Adjustment Factor (FAF)/ Financing Adjustment (FA)

Financing Adjustment Factor (FAF) and Financing Adjustment (FA) financing comes to the Agency as a result of an agreement between the U.S. Department of Housing and Urban Development and Minnesota Housing to share in the savings resulting from refunding high interest rate bonds. Minnesota Housing originally issued the bonds in 1980 through 1983 to finance Section 8 developments.

FAF/FA funds deferred maintenance and operating subsidies for eligible properties. Minnesota Housing makes these funds available in interest and non-interest-bearing amortizing loans, deferred loans or grants, as well as rent subsidy grants. Owners receiving assistance with these funds must agree to extend/renew the Section 8 Housing Assistance Payment Contract (HAP) or accept similar project-based replacement benefits for a minimum of ten years beyond the current commitment to the program.

Program Performance and Trends
From October 1, 2011 – September 30, 2012, Minnesota Housing closed:

- three FAF/FA loans to assist 72 rental units
- $1,318,064 total loan amount
- average loan was $439,355 or $18,306 assistance per unit

Minnesota Housing provided limited funding under FAF/FA during the 2013 AHP period, as guidelines and processes for the deployment of the program were not clearly established. Clarified guidelines suggest greater activity during the 2014 AHP. Staff will identify target properties and market the availability of this resource to ensure its full utilization in the preservation of existing properties.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to finance an estimated 233 units under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	
Carry Forward of Unobligated Balances from Previous Plans	$3,500,000
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$3,500,000
2013 Original Total	**$3,360,090**

Legal Authority: Minn. Stat. §462A.05, Subd. 11

Economic Development and Housing/Challenge (EDHC) – RFP

The Economic Development and Housing/Challenge Program (EDHC) provides grants or loans for the purposes of construction, acquisition, rehabilitation, permanent financing, interest rate reduction, refinancing, and gap financing. Funds are used to support economic development or job creation activities within a community or region by meeting locally identified housing needs for both renter and owner-occupied housing. Deferred loans are typically provided at no or low interest; Minnesota Housing requires that most affordability gap financing awards be provided in the form of loans repayable to the Agency.

The program is designed to provide housing affordable to the local workforce based upon the wages of the jobs being created or retained in the area, fastest growing jobs in the local area, and jobs with the most openings in the local area, or wages of the workforce employed by organizations making contributions under the program.

The Multifamily and Single Family divisions allocate these state-appropriated EDHC resources to competitive proposals submitted through the Request for Proposals (RFP) process. Staff rank and score proposals according to EDHC selection standards and Minnesota Housing's strategic priorities.

EDHC loans may be made to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations, or owners of housing (including individuals) for both multifamily (minimum of four units) and single family projects. EDHC requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources.

2013 income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Maximum loan amount: None beyond funding availability

Program Performance and Trends

RFP funding for single family housing is available under the Community Homeownership Impact Fund (formerly known as Community Revitalization Fund or CRV). This fund is the umbrella program for EDHC and two interim construction financing programs (Partnership for Affordable Housing and Innovative Housing) for homeownership activities.

For the Program Assessment period of October 1, 2011 – September 30, 2012, under the RFP funding for EDHC, Minnesota Housing funded:

<u>Multifamily EDHC</u>

- loans to 12 developments with 714 units
- $9,306,238 total loan amount
- $13,034 average EDHC assistance per unit
- median household income of $20,000 or 27 percent of statewide median
- 60 percent were households of color

<u>Single Family EDHC</u>

- 244 loans
- $4,910,395 total loan amount
- $20,125 average loan
- median household income was $35,000 or 48 percent of statewide median
- 40 percent were households of color

Proposal for 2014

The level of funding requested reflects available resources and is lower than in the 2013 AHP because the Minnesota Legislature did not make funds available through Housing Infrastructure Bonds.

Based on resources available for new activity in 2014, Minnesota Housing expects to fund an estimated 1,115 units under the EDHC RFP.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$14,203,000
Carry Forward of Unobligated Balances from Previous Plans	$2,874,907
Repayments and Receipts	$250,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$17,327,907
2013 Original Total	**$31,489,227**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

EDHC – Twin Cities Community Land Bank and Family Housing Fund

Minnesota Housing provides two revolving lines of credit, one to the Twin Cities Community Land Bank (TCCLB) and one to the Family Housing Fund (FHF), under the Economic Development and Housing/Challenge Program. TCCLB uses funds for foreclosure recovery and neighborhood stabilization. FHF uses funds for acquisition, interim financing, new construction, and land banking.

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, data available for the MyHome Source component of the TCCLB allocation showed Minnesota Housing resources financed:

- 43 homes
- $5,810,586 total loan amount
- $135,130 per home
- median household income of homebuyers was $56,991
- 18 percent were households of color

Proposal for 2014

Given market conditions and a better understanding of how these funds are being used, Minnesota Housing is projecting a lower level of activity than it originally projected for 2013.

Based on resources available for new activity in 2014, Minnesota Housing expects TCCLB/FHF to fund an estimated 68 homes.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$8,500,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$8,500,000
2013 Original Total	**$12,000,000**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

EDHC – Community Owned Manufactured Home Parks

The Agency is a participating lender investing in loans made by Resident Owned Capital, LLC (ROC-USA) a national non-profit. ROC-USA loans that are made to resident manufactured home cooperatives enable them to purchase, own, and manage the parks that they occupy. ROC-USA acts as a lead lender and is responsible for loan servicing and loan origination and takes a lead role in due diligence review. In addition, ROC-USA contracts with Northcountry Cooperative Foundation (NCF), a local non-profit, to engage cooperatives in development activities, such as organizing the cooperative entity and contracting for third party reports. NCF is retained after closing to provide ongoing technical assistance to the cooperative.

Program Performance and Trends
ROC-USA and NCF are marketing this program, for which activity has been slower than anticipated. For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing committed one $1.2 million loan to a park in Lindstrom, Minnesota.

Proposal for 2014
Although no applications are pending at this time, staff recommended that Minnesota Housing allocate a small amount of Pool 2 funds (an estimated 80-unit park) to be used should a proposal materialize.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$2,000,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$2,000,000
2013 Original Total	**$2,000,000**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

Technical Assistance and Operating Support

The Agency's Technical Assistance and Operating Support Fund provides organizational-support funding to entities providing affordable housing and housing-related services. The Agency contracts with intermediary organizations to deliver a large portion of the program funds to eligible organizational recipients. It also provides grants for projects that have an important State or regional impact and are consistent with the Minnesota Housing's mission. Grants may be used for projects that are research-oriented, that require external expertise to supplement existing staff, or that develop or support infrastructure related to the Agency's strategic priorities.

Program Performance and Trends

Examples of expenditures include contributions to: 1) the statewide counseling network through the Home Ownership Center, 2) the Wilder Statewide Survey of Homelessness, 3) the maintenance of and expansion of the database and processing system by HousingLink to provide affordable rental housing vacancy information statewide, 4) the state's Homeless Management Information System (HMIS), 5) regional Continuum of Care planning, 7) the evaluation of updated national Green Communities criteria, and 8) assistance with the refinement and implementation of new initiatives.

Proposal for 2014

Under the 2014 Plan, funds will be made available for a variety of operating support and technical assistance needs including continued support for the Minnesota Home Ownership Center, HMIS, and HousingLink. Twin Cities Local Initiatives Support Corporation (LISC), Duluth LISC, and the Minnesota Housing Partnership will provide operating support to other housing providers. Minnesota Housing will continue to refine Community Housing Development Organization (CHDO) support to ensure a strong network of housing development non-profits to serve Greater Minnesota communities.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$375,000
Carry Forward of Unobligated Balances from Previous Plans	$85,920
Repayments and Receipts	
Contributions from Other Organizations	$30,000
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$2,250,000
Revolving	
2014 Total	$2,740,920
2013 Original Total	**$2,515,971**

Legal Authority: Minn. Stat. §462A.07, Subd. 6; Minn. Stat. §462A.21, Subd. 3b; Minn. Rules, Parts 4900.1931-1937; 42 U.S.C. §12701 et seq.; 24 C.F.R. Part 92;

Non-Profit Capacity Building Loan Program

The Non-Profit Capacity Building Loan Program assists non-profit organizations, tribal councils, and local units of government in the development of housing projects for low-and moderate-income people. These short-term loans are used for pre-development costs such as architect fees, attorney fees, options on land and buildings, and other costs associated with the processing or preparations of a housing proposal. The program is a revolving loan fund delivered through administrators. The Greater Metropolitan Housing Corporation and the Local Initiatives Support Corporation (Minneapolis/Saint Paul) serve the seven-county Twin Cities area while the Minnesota Housing Partnership and the Local Initiatives Support Corporation (Duluth) serve the balance of the state. Individual loans are selected and underwritten by the administrators with results reported to Minnesota Housing.

Maximum loan amount varies by administrator. Loans typically are for two-year terms at an interest rate set by the administrator. Current tenant income limit: 80 percent of statewide median income.

Program Performance and Trends

This program, which achieves nearly a 1:1 match from our administrators, was established as a revolving loan program with repayments supporting new loan production. The program supports the Agency's interest in the development or expansion of the capacity of non-profit housing providers.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	$1,000,000
2014 Total	$1,000,000
2013 Original Total	**$1,000,000**

Legal Authority: Minn. Stat. §462A.21, Subd. 3a; Minn. Rules, Parts 4900.1925-1930

Strategic Priority Contingency Fund

This was a new line item in the 2013 AHP. During any given year, Minnesota Housing anticipates that some programs are likely to need additional resources. To be more nimble and responsive, the Agency has set aside contingency funds to meet unexpected needs.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$2,000,000
Revolving	
2014 Total	$2,000,000
2013 Original Total	**$2,000,000**

Administrative Expenses (HOME)

HOME program regulations allow Minnesota Housing to recover the costs incurred in administering the program, subject to certain Federal restrictions regarding what constitutes allowable costs and subject to the restriction that reimbursed administrative costs cannot exceed 10 percent of the Federal appropriation. Agency administrative expenses are limited to Agency overhead and administrative fees paid to local administrators.

Program Performance and Trends
The Agency traditionally has allocated six percent of its HOME funds to overhead. The Agency's allocation of HOME funds to additional activities in recent years (e.g., monitoring of HOME rental developments brought in-house), has contributed to increased administrative costs.

Proposal for 2014
New allocations of HOME funds will not occur until the annual appropriations are decided, which will most likely be in the spring of 2014. This Affordable Housing Plan assumes that the amount of new appropriations is the same as the 2013 appropriation of $5.9 million; this is subject to change pending actual receipt of the funds.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$592,222
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$592,222
2013 Original Total	**$615,415**

Legal Authority: Title II of the Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12701, et. seq.

Manufactured Home Relocation Trust Fund

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay $12 per licensed lot into the Trust Fund each year. The owner of the manufactured housing park is authorized to recoup the $12 from the manufactured homeowner either monthly or in a lump sum. The Trust Fund is available to manufactured home owners who have to relocate because the park they are living in is being closed. The statute sets out the process for determining how much money a homeowner is eligible for and maximum amounts. Only those home owners who paid into the Trust Fund are eligible to receive payment. Funds are paid to Minnesota Management and Budget for deposit in the Trust Fund held by Minnesota Housing. Minnesota Housing's role is to make payments as directed by a neutral third party for the costs of relocation. Minnesota Housing is not responsible for paying claims if there are insufficient funds in the Trust Fund.

Program Performance and Trends

The fund balance is more than $1.2 million as of March 31, 2013. State law was amended in 2011 to suspend collection of the fee if the balance in the account is equal to or exceeds $1 million; therefore, no receipts are anticipated for 2014.

Proposal for 2014

It is difficult to predict the level of demand for these funds given the limited experience to date. One park closing is anticipated in 2014 with an undetermined number of eligible claims to be made.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$1,279,536
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$1,279,536
2013 Original Total	**$1,279,536**

Legal Authority: Minn. Stat. §327C.095

Flood Disaster

Flood Disaster response programs provide funding for repair or replacement of renter or owner-occupied housing damaged by a natural disaster such as a flood or tornado. Minnesota Housing implemented the original Flood Economic Development and Housing/Challenge Program to address flood damage in southeastern Minnesota that occurred in August of 2007. Subsequent Minnesota Legislature appropriations have included $2.7 million to address the 2009 Red River Valley flood, $4 million for the 2010 southern Minnesota flood, and $12.7 million for flood and wind damage in northeastern Minnesota in 2012. Local administrators under contract to deliver ongoing Agency programs typically deliver disaster relief to impacted areas through the single family Quick Start Disaster Recovery Program or through multifamily rental repair and homeless response programs.

Program Performance and Trends
Over the past six years, Minnesota has seen significant disasters that have required activation of Quick Start and other Agency housing assistance every 14 months. These have typically been funded by special appropriation from the Minnesota Legislature following a federal disaster declaration and determination of the level of available federal funding from the Federal Emergency Management Agency.

For the program assessment period October 1, 2011 – September 30, 2012, the Agency provided funding for:

- 32 single family units
- $410,597 total loan amount
- $12,831 average per unit

Proposal for 2014
The request level for new funding in this AHP is $0, as no assumption or prediction is made for a disaster event within the plan year. Unused or repaid Flood Disaster funds may be placed in the Disaster Relief Contingency Fund.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$0
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$0
2013 Original Total	**$12,720,000**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652 and Minn. Stat. §12A.09

Disaster Relief Contingency Fund

This fund was established by the 2001 Minnesota Legislature as the account into which the Agency would deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are to be used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas that are covered by a presidential declaration of disaster. The terms and conditions under which the funds are made available are at the Agency's sole discretion.

Program Performance and Trends
Use of funds includes capacity building grants for disaster response and flood insurance payments. No funds were committed under the 2013 AHP from this fund.

Proposal for 2014
New program terms will determine the number of households to be assisted with contingency fund resources.

Based on resources available for new activity in 2014, Minnesota Housing could fund an estimated 86 units through the Disaster Relief Contingency Fund.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$1,619,357
Repayments and Receipts	$100,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$1,719,357
2013 Original Total	**$978,000**

Legal Authority: Minn. Stat. §462A.21, Subd. 29; Laws of Minnesota 2003, Chap. 128, Art. 10, Sec. 4, Subd. 2

Minnesota Housing finances **affordable housing** for low- and moderate-income Minnesotans while fostering **strong communities**.

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